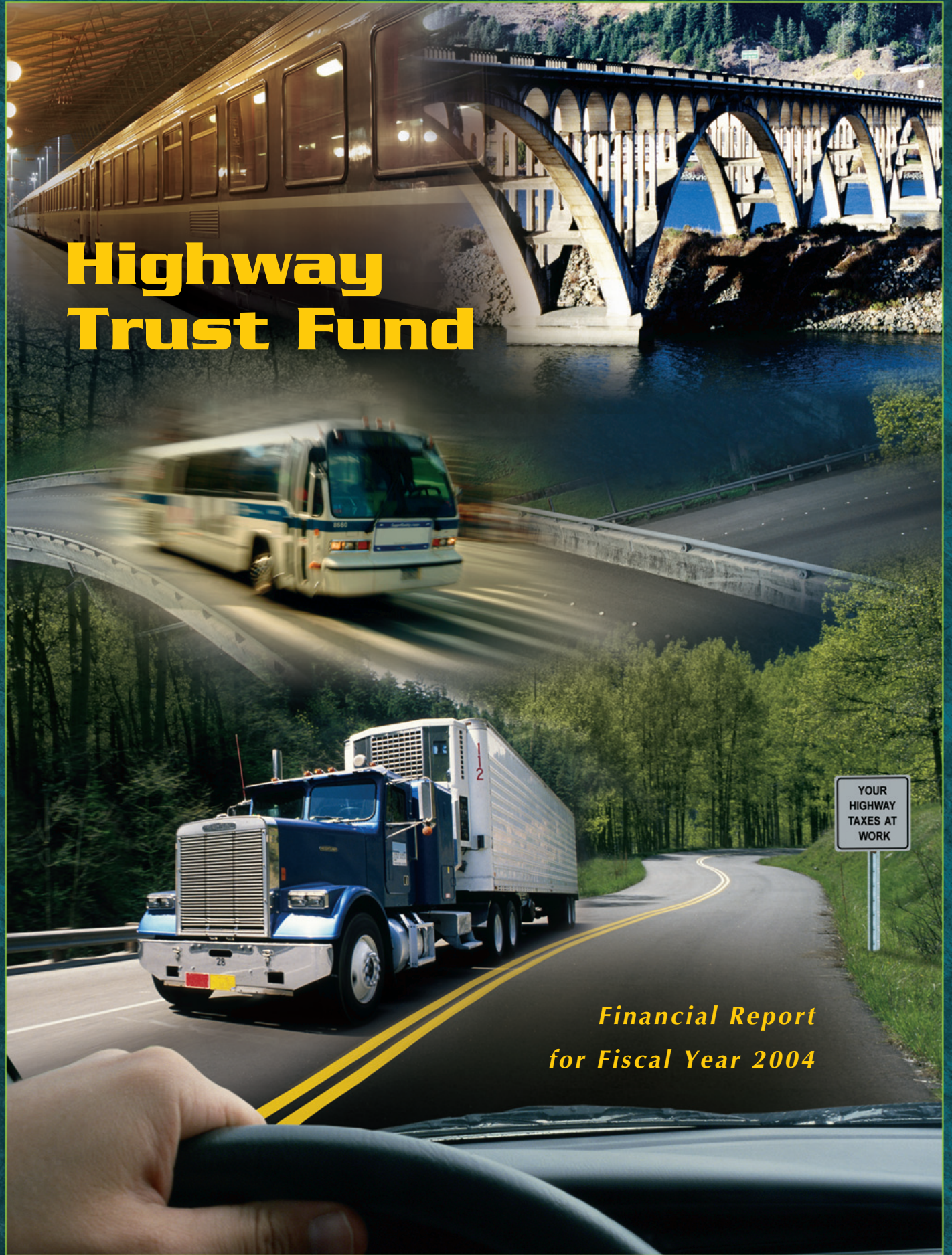


Highway Trust Fund



*Financial Report
for Fiscal Year 2004*

Highway Trust Fund

Financial Report for

Fiscal Year 2004

YOUR
HIGHWAY
TAXES AT
WORK

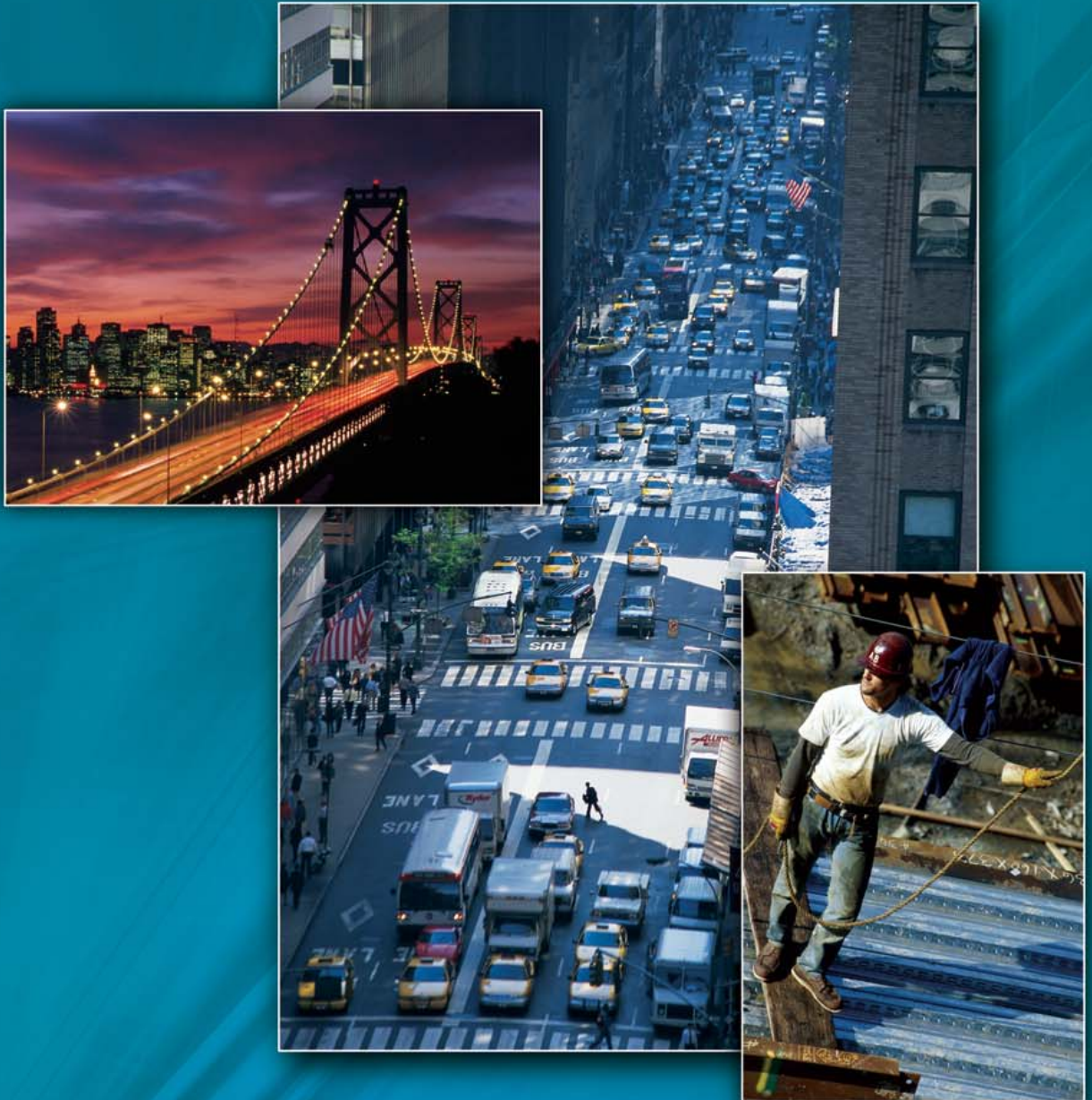


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Management's Discussion and Analysis







THE FUND

The Highway Trust Fund (HTF) was established by the Highway Revenue Act of 1956 to ensure a dependable source of financing for the National System of Interstate and Defense Highways. Although the fund was initially created to support construction of the Interstate Highway system, the HTF now funds a wide range of transportation-related projects in support of the country's changing needs. The HTF provides funding to build, maintain, and improve the nation's roads and transit systems. It also provides funding for safety programs to reduce deaths and property loss from highway and other surface transportation accidents.

Under its authorizing legislation, the HTF is to be funded from excise taxes on motor fuels, tires, truck and trailer sales and heavy vehicle use. The HTF is managed by the Department of the Treasury (Treasury). The Treasury is responsible for depositing excise taxes into the HTF, which is a separate trust fund. The funds held by Treasury are considered as the Corpus of the HTF, and any funds not needed for expenditures are to be invested. When funds are transferred from Treasury to a HTF agency's appropriation, they are still considered part of the HTF, but not the Corpus. Until October 1998, the HTF earned interest on its investments. The Transportation Equity Act for the 21st Century (TEA-21), Public Law (PL) 105-178 discontinued the earning of interest income for the HTF and the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (PL 105-277) specified that the HTF be invested in non-interest bearing Treasury non-marketable securities.

The HTF is made up of two accounts, the Highway Account (HA) and the Mass Transit Account (MTA). The MTA receives 2.86 cents per gallon of motor fuel sold, .01 cent per gallon of motor fuel sold goes to the Leaking Underground Storage Tank Trust Fund, and the remaining amount of the taxes collected is credited to the HA. Twice each month, Treasury distributes among various trust funds and the General Fund their estimated share of all excise taxes collected for that portion of the month. When the quarterly excise tax returns are filed and excise tax receipts are certified by the Internal Revenue Service, Treasury adjusts the estimates to reflect certified tax collections.

TEA-21 was the most recent long-term authorization act for the programs funded by the HTF. TEA-21 expired on September 30, 2003. Six subsequent legislative acts have extended the TEA-21 provisions through May 31, 2005, pending passage of a new authorization act.

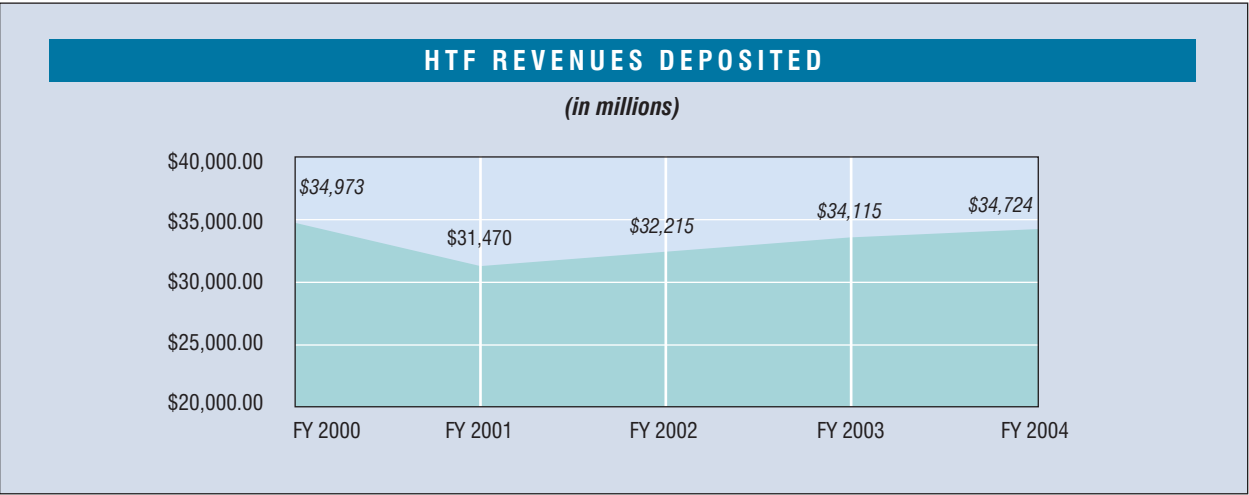


MANAGEMENT'S DISCUSSION AND ANALYSIS

Each fiscal year (FY), Congress appropriate funds from the HTF to the Department of Transportation (Department) to fund six Department agencies (modes) and/or certain agency programs—Federal Highway Administration (FHWA), Federal Transit Administration (FTA), Federal Motor Carrier Safety Administration (FMCSA), Federal Railroad Administration (FRA), National Highway Traffic Safety Administration (NHTSA), and Bureau of Transportation Statistics (BTS). Monies appropriated from the HTF to these agencies are used to pay for the operations of these administrations and to liquidate obligations made with contract authority previously used to award grants. In each appropriation bill, Congress also authorizes the apportionment of contract authority to fund the award of grants to states, local governments, and other organizations. Within the Department, HTF activities are managed primarily by the individual operating agencies with oversight from the Department’s Office of Budget and Financial Programs and FHWA.

In FY 2004, operations of HTF modes were impacted by the lack of long-term authorizing legislation and the incremental funding of the programs. For the first five months of FY 2004, HTF modes were operating under a continuing resolution that limited spending to previous year levels. Program authorizations were extended in a series of six short-term extensions of TEA-21. As a result, issuance of grants were delayed, new programs and improvements to existing programs could not be implemented, and achievement of goals was hindered.

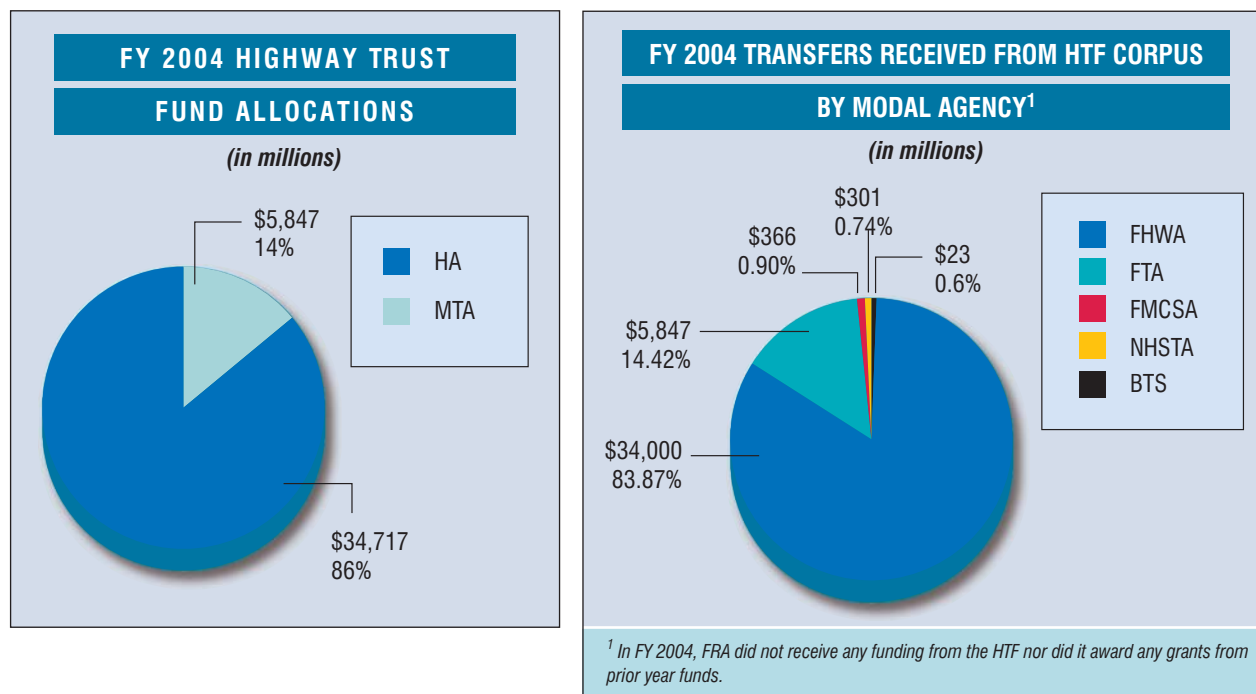
The chart below shows revenues deposited in the HTF for the last five years.



In FY 2004, FRA did not receive any funding from the HTF nor did it award any grants from prior year funds. As a result, though one of the six modes with programs funded from the HTF, FRA programs and accomplishments are not highlighted in this report.



The following chart depicts the percentage of dollars distributed from the HTF Corpus to the HA and MTA for FY 2004:

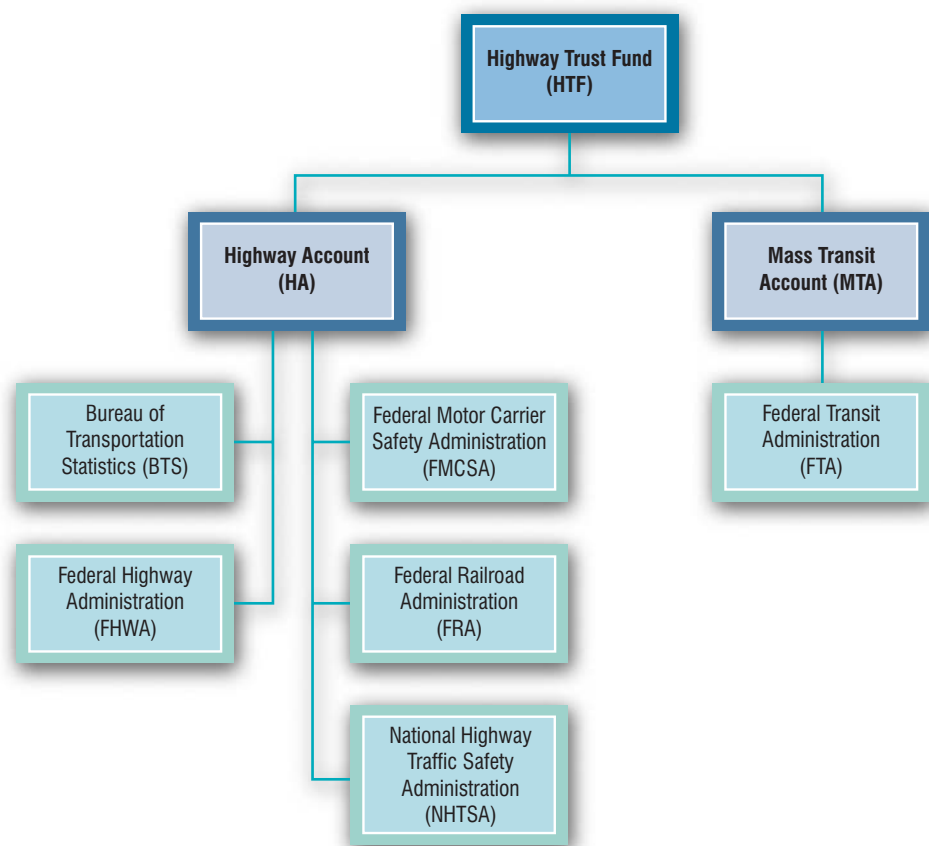


The HTF supports initiatives such as highway safety, environment, emergency relief, motor carrier safety, research and development (R&D), transportation statistics, use of safety belts, and preventing alcohol-impaired driving. The HTF has also recently begun to support automated toll collection, research into "smart" emergency vehicle access systems, transportation analysis, and various vehicle warning systems. All of these activities effectively contribute to supporting the Department's strategic objectives to eliminate transportation-related deaths and injuries, provide accessible and efficient transportation, protect the natural environment, and ensure the security of the U.S. transportation system.



AGENCY (MODAL) SUPPORT

Within the Department, six modes receive funds from the HTF. Each of these agencies, except for BTS, then provides funding through grants to states or local governments according to formulas established by law and/or based on competition. Grants are not made in the form of cash. Rather, the recipients must first make expenditures on qualified and approved projects and then request reimbursement from the appropriate mode. This funding is limited by law from 50 to 100 percent of the total eligible project cost. The remaining non-federal costs are paid by the recipient through matching funds. The following chart shows which HTF account is used to fund each of the modal administrations.



Both the mission and programs administered by each of these modes are unique. The following table provides the mission statements for each agency and their role to support the purposes of the HTF. See Appendix A for the organizational chart for each agency.



MANAGEMENT'S DISCUSSION AND ANALYSIS

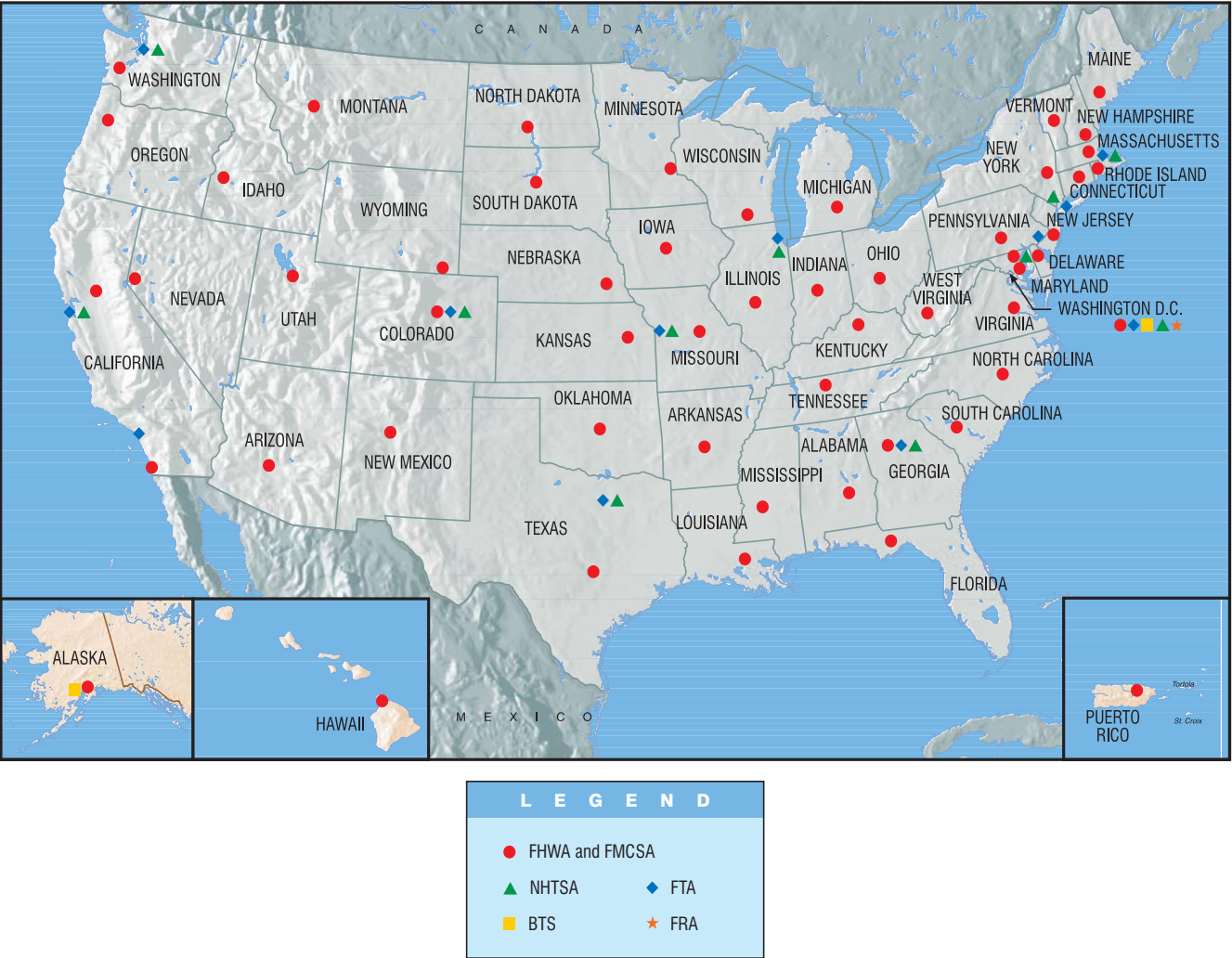
HTF AGENCIES

Agency	Mission	Support Role to HTF
BTS	Lead in developing transportation data and information of high quality, and to advance their effective use in both public and private transportation decision-making.	Collects, analyzes, and disseminates multi-modal transportation data that assists in transportation decision-making.
FHWA	Enhance mobility through innovation, leadership, and public service.	Facilitates the construction, operation, and maintenance of the National Highway System (NHS), and related transportation activities that support their safe, environmentally friendly, and productive use.
FMCSA	Reduce crashes, injuries, and fatalities involving large trucks and buses.	Focuses on highway safety related to large trucks and buses.
FRA	Promote safe, environmentally sound, successful railroad transportation to meet the needs of all customers today and tomorrow. FRA encourages policies and investments in infrastructure and technology rail to realize its full potential.	Promotes safety in rail travel through policy development and improved technology.
NHTSA	Save lives, prevent injuries, and reduce traffic-related health care and other economic costs. The Agency develops, promotes, and implements effective educational, engineering, and enforcement programs toward ending preventable tragedies and reducing economic costs associated with vehicle use and highway travel.	Collects and analyzes crash data, develops measures to prevent vehicle crashes, regulates motor vehicle manufacturers, and provides worldwide education related to vehicle safety.
FTA	Provide leadership, technical assistance, and financial resources for safe, technologically advanced public transportation which enhances all citizens' mobility and accessibility, improves U.S. communities and natural environment, and strengthens the nation's economy. The FTA carries out this mission in cooperation with its partners, now and into the future.	Supports the development of public transportation systems and promotes safety measures and accessibility to public transportation.



FIELD LOCATIONS

The following map identifies the office locations of each modal administration. See Appendix B which lists the type of office and location for each modal administration.





FINANCIAL AND PERSONNEL HIGHLIGHTS

Following are the significant financial highlights for the HTF that compare FY 2004 and FY 2003 activity and the associated percentage change.

	FY 2004	FY 2003	% Change
At End of Year			
Condensed Balance Sheet Data			
Fund Balance With Treasury	\$ 4,270,531	\$ 4,163,237	2.58%
Investments	10,211,852	13,996,553	-26.88%
Accounts Receivable, Net	15,483	56,014	-72.36%
Property, Plant and Equipment, Net	47,021	46,856	+ .35%
Other Assets	186,272	117,513	+58.51%
Total Assets	\$ 14,731,159	\$ 18,350,173	-19.72%
Accounts Payable	\$ 147,621	\$ 48,363	+205.24%
Grant Liabilities	2,195,580	2,443,591	-10.15%
Other Liabilities	247,385	60,463	+309.15%
Total Liabilities	\$ 2,590,586	\$ 2,552,417	+1.50%
Net Position	\$ 12,140,573	\$ 15,797,756	-23.15%
Total Budgetary Resources	\$ 67,270,201	\$ 67,570,611	-0.44%
For the Year			
Trust Fund Revenues	\$ 34,724,328	\$ 34,115,172	1.79%
Total Cost	\$ 31,442,265	\$ 31,568,738	-0.40%
Total Earned Revenues	13,838	67,933	-79.63%
Net Cost of Operations	\$ 31,428,427	\$ 31,500,805	-0.23%
Full-time Equivalent (FTE)	5,625	5,504	
On-Time Payments (%)	93%	94%	
Electronic Funds Transfer Payments (%)	75%	76%	



SIGNIFICANT PROGRAM ACCOMPLISHMENTS

FHWA

Highway Fatality Rate

Responding to Secretary of Transportation Mineta's challenge to reduce fatalities, FHWA gathered with State Departments of Transportation (DOT) and other critical safety partners for a national safety summit in Kentucky and all participants committed to take action. As a result of DOT/FHWA leadership, over 30 States have initiated the development and implementation of a State Strategic Highway Safety plan that includes the "4E's of Highway Safety" (engineering, education, enforcement, and emergency services).

511 Travel Telephone Information Service

The 511-travel telephone number information service is now accessible to about 25 percent of the Nation's population. When fully deployed, this service will provide easy access to local travel conditions information and assist travelers in avoiding congested areas resulting from travel incidents.

Amber Alert

FHWA awarded Amber Alert planning grants to 41 states to further include state and local transportation agencies into Amber Alert programs. FHWA awarded 16 states implementation assistance grants to help fund the transportation aspects of existing Amber Alert programs.

U.S. Embassy and Facility Protection

Using computer analysis and simulations validated through actual crash testing, FHWA successfully designed for the Department of State (DOS) and other federal agencies anti-ram barriers (bollards, fences, walls, etc.) to meet DOS's facility protection criteria.

FTA

Grant Processing

FTA improved program delivery to its customers by making dramatic improvements in the timeliness of grant processing. In FY 2004, FTA processed 91 percent (against a target of 80 percent) of the grants awarded within 60 days of receiving a completed application.

New Starts Program

FTA implemented a timesaving measure using "cost per new rider" to replace the "number of new riders"



FTA funded new subway projects to increase availability.



as a criteria used to assess new fixed guideway projects. The increased focus on ensuring a good return on investment, proactive project cost management by FTA, and project sponsors resulted in a total saving of \$673 million for seven proposed investments.

Transit Rail Stabilization

Federal and local funding supported replacement and rehabilitation of the existing rail fleet and restoration of rail facilities, such as stations, track, yards, and shops. Nationally, there are 10,572 miles of track, 2,825 stations, and 1,369 rail maintenance facilities. According to FTA's most recent *Conditions and Performance Report (2002)*, recent transit funding provided by all levels of government stabilized, but did not improve the condition of rail vehicles and facilities.

NHTSA

Safety Belt Use

Safety belt use in the United States reached an historic high of 80 percent in 2004. The Secretary and Administrator launched the annual "Click It or Ticket" campaign in May 2004. NHTSA expanded the high-visibility enforcement and paid media model of "Click It or Ticket" to address impaired driving. This campaign coincided with the Labor Day weekend, which is one of the most heavily traveled holiday weekends.

Impaired Driving

NHTSA collaborated with federal partners and states to promote alcohol screening and intervention, launching a major national impaired driving prevention initiative. In April 2004, 6,542 sites participated in the National Alcohol Screening Day, a 40 percent increase from last year. As of July 2004, the .08 Blood Alcohol Concentration laws were enacted in 50 states, the District of Columbia, and Puerto Rico with the passage of legislation in Delaware; however, Minnesota's law does not become effective until August 2005.



International Road Safety

International road safety was a major FY 2004 initiative supported by NHTSA, the Centers for Disease Control and Prevention, many other federal agencies, and the Pan American Health Organization. Secretary Norman Y. Mineta celebrated World Health Day in France in April, while numerous road and traffic injury prevention activities were held in the United States and abroad.

BTS

Transportation Services Index (TSI)

In January 2004, BTS launched the new TSI. The TSI is a measure of the month-to-month changes in the freight and passenger travel output of services provided by the for-hire transportation industries, which include railroad,



MANAGEMENT'S DISCUSSION AND ANALYSIS

air, truck, and inland waterways transportation; pipeline transportation; and local mass transit. The TSI is expected to become a major economic indicator intended to measure the performance of the economy, but is still under development and is considered experimental.

Air Travel Price Index (ATPI)

In March 2004, BTS launched the ATPI. The ATPI is a measure of the change over time in the prices paid by air travelers. The index is based on actual fares paid by travelers, not published fares, and can be used to compare airfares in the most recent available quarter to any quarter since the base year of 1995. Although the ATPI is computed using a tested index methodology, the effective application of this methodology to the airlines' data is still under development and is considered a research series at this time.

New Airline Information for Travelers and Planners

BTS implemented two data programs (ATPI and Causes of Flight Delay) that offer air travelers and planners more frequent and meaningful information for decision-making. Causes of Flight Delay data of major U.S. carriers and airports offers a monthly breakout of various types of weather and non-weather related arrival delays.

FMCSA

Commercial Driver License (CDL) Fraud Crack Down

In an effort to keep unqualified commercial motor vehicle (CMV) drivers off the nation's highways, FMCSA launched a major initiative to identify CDL testing and licensing fraud through enhanced compliance reviews of state programs, covert monitoring of state and third-party examiners, and through Social Security Number verification.

North American Free Trade Agreement (NAFTA) Implementation

FMCSA efforts continued to implement the President's order to open the southern border to expanded CMV operations under NAFTA. In a unanimous decision, the United States Supreme Court helped to clear the way for implementation of three rules governing the operation of Mexico-domiciled commercial motor vehicles beyond the border commercial zones. This was due to the reversal of a January 2003 decision of the U.S. Court of Appeals for the Ninth Circuit, which held that FMCSA was not required to prepare an Environmental Impact Statement and Clean Air Act Conformity Analysis before promulgating the rules.

Consumer Information on Interstate Movers

FMCSA significantly expanded and enhanced its Web-based database that informs consumers on their rights and responsibilities and serves as a guide in the selection of a reputable carrier. There are approximately 1.5 million shipments of household goods in the United States each year, roughly 600,000 of which are interstate moves. While most moves go smoothly, many consumers are experiencing difficulties in resolving disputes with problem movers and drivers. Consumer complaints are continuing to rise at an alarming rate, more than tripling in the past three years. During the first seven months of 2004, the Web site received over 650,000 hits.

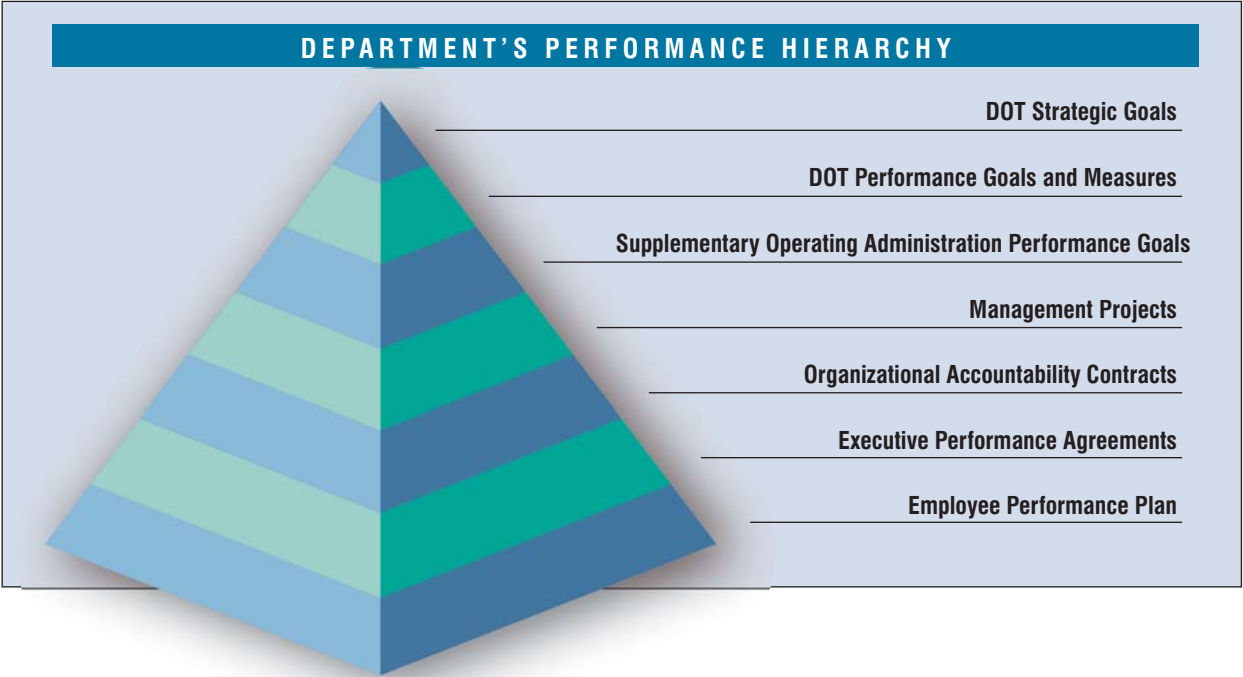


PROGRAM PERFORMANCE

The Department prepares a strategic five-year plan and an annual performance plan (APP). In the strategic plan, the Department establishes its strategic goals, objectives, and outcomes. The APP identifies the Department's performance goals and measures that are linked to the strategic outcomes and goals. The annual goals and measures identify the progress the Department is making toward achieving its strategic goals. Each mode identifies performance goals and measures that support the Department's performance goals and measures.

Within the HTF, each mode's performance plan complements the Department's performance measures. Each fiscal year, HTF modes establish individual performance objectives, annual targets, and resources required to accomplish the goals. The objectives and goals of the HTF modes must link and contribute to the strategic objectives and goals of the Department. During the year, the modes gauge their progress toward achieving the Department goals and report on performance in both the Department's Performance and Accountability Report (PAR) and the HTF Financial Report for FY 2004.

This illustration below shows the top-down approach that the Department uses to ensure that it effectively plans, measures, manages, and reports performance.





MANAGEMENT'S DISCUSSION AND ANALYSIS

The Department had five strategic objectives in FY 2004. Each of the modes that received funding from the HTF aligned themselves with the Department's strategic objectives and measures as they relate to their program responsibilities. They then employed the proper strategy to meet performance expectations. The Department's Strategic Objectives in FY 2004 were:

- ◆ **Safety** – Promote the public health and safety by working toward the elimination of transportation-related deaths and injuries.
- ◆ **Mobility And Economic Growth** – Shape an accessible, affordable, reliable transportation system for all people, goods, and regions. Support a transportation system that sustains America's economic growth.
- ◆ **Human And Natural Environment** – Protect and enhance communities and the natural environment affected by transportation.
- ◆ **Homeland And National Security** – Ensure the security of the transportation system for the movement of people and goods, and support the National Security Strategy.
- ◆ **Organizational Excellence** – Advance the Department's ability to manage for results and innovation.

The Department is committed to embodying the President's goals of a citizen-centered, results-based, market-oriented government. Everything done at the Department is aimed at making measurable improvements in our transportation system, the security of our Nation, and the quality of American life.

INTEGRATING FY 2004 RESOURCE EXPENDITURE ACCOUNTING WITH ACHIEVEMENT OF HTF GOALS

A fundamental strength of the programs funded by the HTF is that their activities affect multiple goal areas. By design, a dollar spent on transportation infrastructure not only advances mobility, but also safety, homeland and national security, economic growth, and the mitigation of harmful environmental impacts. The agencies funded by the HTF strive for clearer linkages between expenditures and performance.

PERFORMANCE DATA

A full assessment of the completeness and reliability of HTF performance data and the detailed information on the source, scope, and limitations for the performance data in this report are provided at http://www.dot.gov/PerfPlan2004/Performance_Measurement.html. This Web site also provides information to resolve the inadequacies that exist in HTF's performance data.

Preliminary vs. Final Results: Reporting FY 2004 results by November 2004 has been challenging where the Department relies on reporting by partner agencies. Often the Department has only preliminary or estimated results based on partial-year data and must wait for final data to properly verify and validate its results. In some cases where data are provided solely as an annual value and are not available in time for this report, the HTF relies on historical trend information and program expertise to generate a projected result. The HTF has been careful to point out where it has assessed its performance on a preliminary or projected basis. Preliminary estimates or projected results will be adjusted after final compilation or verification and validation. In all cases where results have changed from last year's report, it is indicated by placing an "f" with the number, indicating a revision.



Single Year Results vs. Historical Trends: Federal and state programs rarely aim to influence simple things. The programs funded by the HTF address complex national problems such as safety, pollution, and congestion. Sometimes the program's progress is overwhelmed by external factors, such as economic growth (or recession), market shifts, or extreme weather, and sometimes it gets a helping hand from those same factors. There always is a natural fluctuation from year to year.

The Department and HTF modes set annual performance targets for the outcomes they desire to influence. Targets set a mark so the HTF modes can judge their progress. They also force the HTF to focus on what it can—and can't do—to get results. In this report, the focus is on single-year results for FY 2004. There is no simple formula that ties the results in one year to the success or failure of programs.

SAFETY

PROMOTE THE PUBLIC HEALTH AND SAFETY BY WORKING TOWARD THE ELIMINATION OF
TRANSPORTATION-RELATED DEATHS AND INJURIES.

STRATEGIC OUTCOMES

- ◆ Reduce the number of transportation-related deaths.
- ◆ Reduce transportation-related injuries.

Safety is the Department's primary strategic goal. Each mode strives to improve the benefits of transportation while reducing risk to the health and well being of travelers. In FY 2004, Department safety programs continued to reduce transportation-related fatalities and injuries.

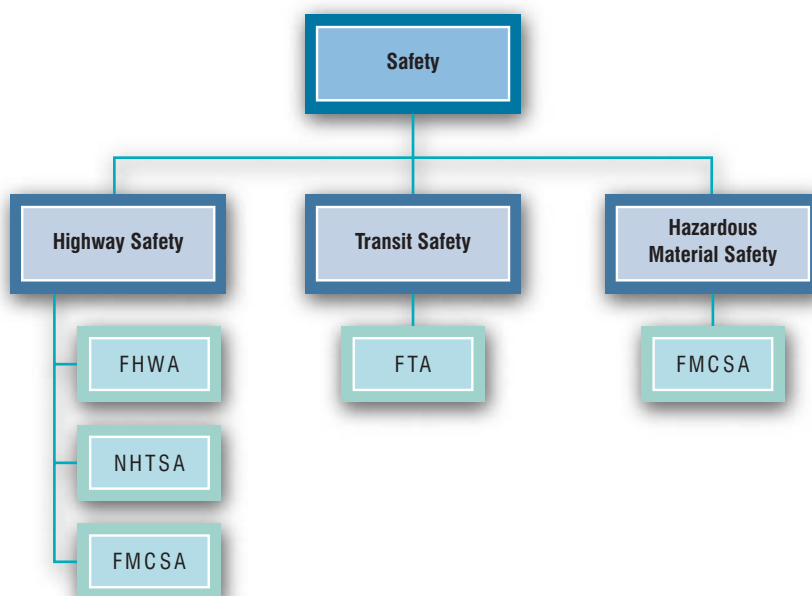
DEPARTMENTAL PERFORMANCE GOALS

- ❶ Reduce highway fatalities per 100 million vehicle miles traveled to no more than 1.0 in 2008, from 1.7 in 1996.
- ❷ Reduce large truck-related fatalities per 100 million truck vehicle miles traveled (TVMT) to no more than 1.65 in 2008, from 2.8 in 1996.

The Department's Safety strategic outcomes were divided into six strategies. The strategies applicable to the HTF are Highway Safety, Transit Safety, and Hazardous Material Safety strategies. The diagram on the next page shows which HTF-funded modes are responsible for achieving each strategy.



MANAGEMENT'S DISCUSSION AND ANALYSIS

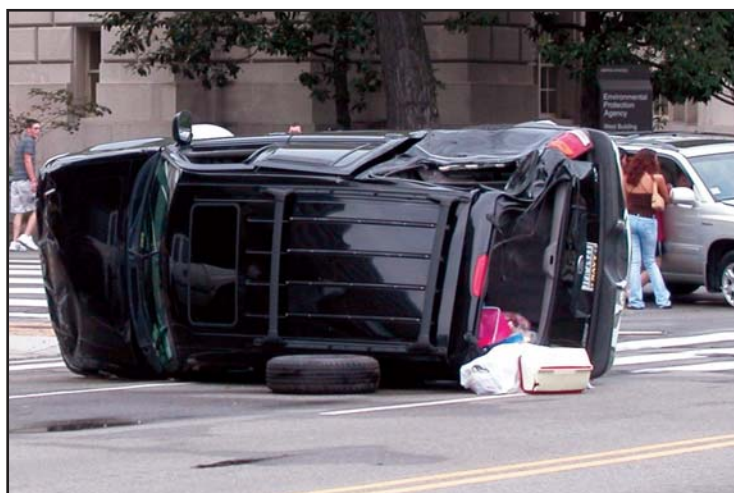


HIGHWAY SAFETY

Highway crashes cause 95 percent of all transportation related fatalities and 99 percent of transportation injuries, and are the leading cause of death for Americans age two and every age from four through 33. Alcohol is still the single biggest contributing factor in fatal crashes. In 2003 alone, an estimated 17,013 lives (equating to 40 percent of all crash-related fatalities) were lost in alcohol-related crashes.

Recent statistics show that about 12 percent of all people killed in motor vehicle incidents were involved in a crash with a large truck, yet trucks represented less than four percent of registered vehicles and over seven percent of the vehicle miles of travel. Twenty percent of Americans (about 60 million people) still do not use safety belts all of the time when driving motor vehicles. The large number of crashes has placed a considerable burden on the nation's health care system and has had significant economic effects. The cost to the economy of all motor vehicle crashes was approximately \$230 billion in 2000, or 2.3 percent of the U.S. gross domestic product.

The table on the next page depicts the performance measures and goals related to Highway Safety.



Traffic crashes are the number one cause of death in the U.S. for age 2 and ages 4 through 33.



HIGHWAY SAFETY – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS

Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Fatalities per 100 million vehicle-miles traveled (VMT)	FHWA, NHTSA	1.51 (Target 1.50)	1.51 ^r (Target 1.40)	1.48 ^r (Target 1.40)	1.38	1.45 ¹	Not Met
Large truck-related fatalities per 100 million TVMT	FMCSA	2.45 (Target N/A ²)	2.30 ^r (Target 2.32)	2.29 ³ (Target 2.19)	2.07	2.21 ⁴	Not Met

^r Revised

¹ Early estimate; based on statistical forecasting model using historical fatality and vehicle-miles traveled (VMT) data. This estimate will change when actual fatality and VMT data for 2004 are available in spring 2005. The 2003 NHTSA Fatality Analysis Reporting System (FARS) annual assessment data, now released, shows that there were 42,643 fatalities on the nation's highways, a reduction from 2002 totals at a projected rate of 1.48 per hundred million VMT. The 2004 fatality rates are based on fatality forecasted by a time series Autoregressive Integrated Moving Average (ARIMA) model. Inputs were monthly fatality counts from FARS from 1975 to 2003. VMT data for 2003 are preliminary estimates provided by FHWA. The 2004 VMT projection assumes a 2.0 percent increase from 2003 VMT estimates. Final figures for these measures will be reported in next year's report. Data and estimates of VMT are provided by FHWA and can be viewed on the FHWA Web site at <http://www.fhwa.dot.gov>.

² Data not available.

³ Preliminary estimate

⁴ Projection from trends

FY 2004 Results: The Department did not meet the fatalities per vehicle goal or the large truck related fatalities goal. As a direct result of the Department's programs, motor vehicle travel has become safer overall—the fatality rate declined from 3.35 in 1980 to a projected 1.45 in 2004. While the Department is making some progress in achieving long-term performance goals, substantial progress still needs to be made to reach the 2008 goal of 1.0 fatality per 100 million VMT.

FHWA

FHWA's safety infrastructure approach has helped minimize the most frequent types of crash-related fatalities and injuries. In FY 2004, FHWA concentrated on reducing roadside departure crashes by promoting greater use of roadway improvements, such as upgraded guardrails and rumble strips, greater use of retroreflective signage and improved markings, and the removal of roadside hazards. Approximately 40 states have now adopted rumble strip policies that conform to the FHWA Rumble Strip Technical Advisory. FHWA also continued to promote the introduction of comprehensive intersection design and operational tools, including enforcement strategies, and sought opportunities to expand analysis and improvement of intersection safety problems at specific locations.

FHWA continued to promote adoption of the framework of the American Association of State Highway Transportation Officials (AASHTO) Strategic Highway Safety Plan. This includes actively engaging lead states to develop strategic safety plans with strong crash data systems, establishing a statewide goal for reducing deaths within a set period of time, and engaging stakeholder safety teams to support the effort. The FY 2004 target was to develop strategic safety plans in 22 states. Currently:

- ◆ 16 states have developed strategic safety plans,
- ◆ 14 additional states are actively working on strategic safety plans, and
- ◆ All 50 states should have strategic safety plans by the end of FY 2006.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Efforts also continued to develop technology-based systems that could significantly reduce roadway departure, intersection, and pedestrian crashes. An intersection safety test facility was established at the FHWA Turner Fairbanks Highway Research Center to identify and test new technologies to be deployed by states to reduce highway crashes.

FMCSA

FMCSA and its state partners have reduced the fatality rate in crashes involving large trucks for six consecutive years. The fatality rate for crashes involving large trucks, which takes into account increased risk exposure due to yearly increases in TVMT, has been reduced by 20 percent since 1996. FMCSA, together with its federal and state partner safety programs, accounted for an estimated 1,248 lives saved in 2003.

Compliance and Enforcement

Setting regulatory standards has been the cornerstone of FMCSA's compliance and enforcement mission. In FY 2004, FMCSA issued final rules concerning hazardous materials (HAZMAT or HM) permitting, fuel tank design, driver training, and driver history. In addition to providing technical assistance to industry and the public, FMCSA established an e-mail address for submission of questions regarding Federal Motor Carrier Safety Regulations (FMCSRs). FMCSA also responded to approximately 700 e-mail inquiries and processed in excess of 3,500 phone calls concerning safety regulations.

FMCSA also continued to place a high priority on enforcement and compliance operational activities. FMCSA obligated \$166 million to states for motor carrier compliance and enforcement activities to complement federal operations. To ensure compliance with FMCSRs during FY 2004, federal and state safety enforcement operations conducted:

- ◆ 1,288 border safety audits¹
- ◆ 1,991 conditional carrier reviews¹
- ◆ 18,604 new entrant safety audits¹
- ◆ 8,321 safety compliance reviews¹
- ◆ 232,927 border inspections¹
- ◆ 2,157,933 roadside inspections¹

In FY 2004, the number of states participating in the Performance and Registration Information Safety Management System, an initiative that links the safety records of motor carriers with their ability to register their vehicles, increased by three to a total of 35.



FMCSA's enforcement strategy includes focusing resources on identifying high risk motor carriers most likely to be involved in a crash.

¹ Data as of June 30, 2004.



Education and Outreach

FMCSA provided CMV safety training for over 4,040¹ state and local law enforcement personnel; and, 5,777¹ federal, state and local law enforcement personnel received training in CMV Criminal Interdiction.

FMCSA also launched a major initiative to promote the use of safety belts by CMV drivers. The program encompassed partnership opportunities, research, education, and outreach, together with law enforcement, to educate CMV drivers about the dangers of not wearing safety belts and to encourage their use. Finally, FMCSA published and disseminated a report on best highway practices used by the safest commercial motor carriers and a brochure on safety management for motor carriers that focused on the safety management practices of the industry's safety leaders.

Driver Identification and Qualification

In FY 2004, FMCSA issued rules covering the Minimum Training requirements for Drivers of Longer Combination Vehicles (LCV), Minimum Training for Entry-Level Drivers, and Safety Performance History of New Drivers. Medical qualifications of CMV drivers remained as an area of focus during FY 2004. FMCSA completed a Drug Test Results Study required by the Motor Carrier Safety Improvement Act (MCSIA), reviewed 693¹ applications for vision exemptions and 99¹ applications for diabetes exemptions, and amended medical standards by publishing new Blood Pressure Guidelines.

Safety Information, Research and Technology (R&T)

FMCSA's R&T programs provided advances and innovations to improve CMV safety. To focus and prioritize R&T activities, FMCSA completed a five-year R&T Strategic Plan (2005-2009). In addition, FMCSA:

- ◆ Completed pilot testing of fatigue management technologies;
- ◆ Published two research reports on sleep apnea and an analysis of the motor coach industry hours of service and fatigue management techniques;
- ◆ Initiated creation of a car-truck interaction database;
- ◆ Completed field operational testing and began initial deployment planning for forward collision avoidance, rollover avoidance, and lane departure warning systems;
- ◆ Continued the study of driver fatigue management techniques employed by safe CMV drivers;
- ◆ Completed a best practices study of CMV training; and,
- ◆ Continued to provide technical support to states to deploy Commercial Motor Vehicle Information Systems and Networks (CVISN).

¹ Data as of June 30, 2004.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FMCSA also continued the Large Truck Crash Causation Study in FY 2004 to better understand the factors contributing to large truck and motor coach crashes. FMCSA finished data collection, completed 90 percent of crash case coding, and began development of a data analysis plan. In addition, FMCSA completed the feasibility report for the Bus Causation Study and approved a data collection plan. FMCSA continued to make safety information available to the public on its Analysis and Information (A&I) Web site, receiving approximately 1,000,000 hits during FY 2004.

The following table depicts NHTSA supplemental performance measures and goals related to Highway Safety.

HIGHWAY SAFETY – NHTSA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Percentage of front seat occupants using safety belts	73%	75%	79%	79%	80%	Met
	(Target 86%)	(Target 75%)	(Target 78%)			
Alcohol related fatalities per 100 million VMT	0.63 ^r	0.61	0.59	0.53	N/A ¹	
	(Target N/A ¹)	(Target 0.55)	(Target 0.53)			
Number of child occupant fatalities between ages 0 and 4 years	513	494	494	< Prior Year	N/A ¹	
	(Target N/A ¹)	(Target < Prior Year)	(Target < Prior Year)			
^r Revised						
¹ Data not available.						

FY 2004 Results: NHTSA exceeded the goal for use of safety belts. Data is not yet available for alcohol related fatalities or child occupant fatalities between ages of 0 to 4 years.

NHTSA

Deaths of passenger vehicle occupants decreased significantly by 2.9 percent in 2003 (the most current data). Occupant fatalities in passenger cars decreased by 5.4 percent while occupant fatalities in light trucks and vans (LTVs)—to include sport utility vehicles (SUV), vans, and pickup trucks— increased by 1.4 percent. In 2003, the number of pedestrians, bicyclists, and others who were not occupants of moving motor vehicles killed in motor vehicle crashes declined by 2.1 percent. Fatalities for children ages 0 to 3 remained the same in 2003 with 494 deaths. This is still below 500 that was an all time low. The fatalities of children ages 4 to 7 continued to decline by 1.7 percent. However, fatalities for children 8 to 15 years old increased 1.8 percent. Alcohol-related fatalities declined 2.9 percent but still claimed over 17,000 lives, and motorcycle fatalities increased for the sixth year in a row to 73 percent since 1997.

Using a performance-based management process, NHTSA made available \$152 million in state and community highway safety formula grants. These grants also provided support for data collections and reporting of traffic deaths and injuries. States also used these grants supplemented by their own funds to:

- ◆ Reduce speed-related fatalities;
- ◆ Encourage proper use of occupant protection devices;



- ◆ Reduce alcohol and drug impaired driving;
- ◆ Reduce crashes between motorcycles and other vehicles;
- ◆ Reduce school bus crashes;
- ◆ Improve police traffic services;
- ◆ Improve emergency medical services and trauma care systems;
- ◆ Increase pedestrian and bicyclist safety; improve traffic record systems; and,
- ◆ Improve roadway safety.

In the past four years, safety belt use has increased steadily from 71 percent in 2000 to 80 percent in FY 2004. The 80 percent safety belt usage will save 15,200 lives and \$50 billion in economic costs associated with traffic-related crashes, injuries, and deaths every year. Belt use is statistically lower in states with secondary belt enforcement laws than in states with primary laws, and lower in rural areas than in urban or suburban areas. In FY 2004, states that allowed more stringent enforcement of their belt use laws ("primary" states) reached a milestone of 84 percent belt use.



Conducting safety belt enforcement during a highway checkpoint.

While the percentage of unrestrained passenger vehicle occupants killed in crashes declined by three percentage points (closely reflecting the four percentage point increase in safety belt use observed in 2003), most passenger vehicle occupants killed in motor vehicle crashes continued to be unrestrained—and many of these result in ejection of the unrestrained person from the vehicle during a rollover event. In 2003, passenger vehicle occupant fatalities in rollover crashes declined for passenger cars and pickup trucks, but again increased for vans (3.6 percent) and SUVs (6.8 percent).

In FY 2004, NHTSA conducted a national "Click It or Ticket" campaign encouraging states to continue to conduct periodic high-visibility safety belt law enforcement mobilizations. In addition, the Agency developed program strategies to assist states in implementing continuous high-visibility enforcement operations (24 hours a day, seven days a week). NHTSA also continued demonstration projects designed to increase safety belt use among rural populations, pickup truck drivers, teens, and minorities.

Finally, NHTSA made available over \$25 million in Occupant Protection Incentive Grants to 35 jurisdictions (31 states, the District of Columbia, Puerto Rico and two U.S. territories) to implement specific occupant protection laws and programs, such as a safety belt law providing for primary enforcement or a law requiring safety belt use in each vehicle seat.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Alcohol-related crashes and their related mortality tolls continued to pose a significant public health challenge throughout the country. Alcohol-related fatalities per 100 million decreased slightly from 0.61 in 2002 to 0.59 in 2003. In 2003, NHTSA estimated that about seven percent of all police-reported crashes were alcohol-involved—amounting to 40 percent of all fatal crashes, claiming 17,013 lives. Therefore, NHTSA continued to enhance its impaired driving program, with emphasis on assisting high-risk populations (e.g., underage drinkers, 21 to 34 year-olds, individuals with high blood alcohol concentration (BAC) or repeat offenders) in order to reverse the current trend.

In FY 2004, NHTSA launched a Strategic Evaluation States Initiative, involving 13 states with either high annual totals of alcohol-related fatalities or high alcohol-related fatality rates per 100 million VMT. All 13 states implemented impaired driving enforcement campaigns with periodic high-visibility enforcement efforts, including media campaigns delivering the message “You Drink and Drive, You Lose.” As part of this campaign, states conducted impaired driving enforcement crackdowns during the Christmas/New Year’s holidays and again around Labor Day 2004.



NHTSA made available more than \$31 million in Alcohol-Impaired Driving Countermeasures Incentive Grants to 36 states having alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs, or to meet certain performance criteria based on their alcohol-related fatality rates. Additionally, 49 states, the District of Columbia, and Puerto Rico received \$80.6 million in incentive grants for lowering the legal threshold for impaired driving to .08 percent BAC. As of July 2004, all 50 states, the District of Columbia, and Puerto Rico had enacted .08 BAC laws with the passage of legislation in Delaware, however, Minnesota’s law does not become effective until August 2005.

TRANSIT SAFETY

Public transit provides a flexible alternative to automobile and highway travel, while offering a higher degree of safety. Currently, transit is one of the safest modes of travel per passenger miles traveled. According to the National Safety Council, riding the bus is 47 times safer than traveling by car, and riding the train is 23 times safer. The challenge is to further reduce the rate of fatalities and injuries even as the total number of people using transit increases.



The following table depicts the performance measures and goals related to Transit Safety.

TRANSIT SAFETY – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Transit fatalities/100 million passenger-miles traveled	FTA	.482	.473	.461 ^r	.487	.359 ¹	Met
		(Target .497)	(Target .492)	(Target .492)			
^r Revised							
¹ Preliminary estimate; the 2004 target for transit fatalities was adjusted from .492 to reflect the downward trend in the actual fatalities data for 2001, 2002, and 2003. The preliminary estimates for the 2004 transit fatalities per 100 million miles traveled was calculated using the transit fatalities data from the National Transit Database (NTD) for the first half of 2004, and from the first quarter data from FRA Rail Accident Reporting System (RAIRS).							

FY 2004 Results: FTA met the performance target.

The following table depicts FTA supplemental performance measures and goals related to Transit Safety.

TRANSIT SAFETY – FTA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Transit injuries/100 million passenger-miles traveled	107.3	36.68 ¹	30.8 ¹	36.0	35.2 ^{1,2}	Met
	(Target 120.7)	(Target 109.4)	(Target 36.3)			
¹ The 2002 and 2003 actual numbers are not comparable to prior year numbers because of the revised definition of transit injuries that was applied to the data collection beginning in 2002. The target for 2003 and beyond has been adjusted to reflect the revised definition.						
² Preliminary estimate.						

FY 2004 Results: FTA met the performance target.

FTA

In FY 2004, FTA's strategy for further reducing the low rate of transit fatalities included continued investment in the Formula Grants, Capital Investment Grants, and the Job Access and Reverse Commute (JARC) Program. Funding from these programs was used to improve transit safety by replacing older bus and rail vehicles with newer, safer ones and by improving track and transit facility conditions. For new projects, safety continued to be a significant design consideration from project inception. FTA planning and research funds assisted states, local transit authorities, and the transit industry by providing safety technical assistance, improving compliance with the Americans with Disabilities Act's safety requirements, and improving technology and training programs. FTA supported the Transportation Safety Institute's safety and security training program, which resulted in 29 transit safety and security courses that were taken by over 4,900 transit employees. Additionally, FTA provided oversight of the states' programs for Safety Oversight of Rail Systems to ensure they are in compliance with the requirements of the State Safety Oversight Rule for Rail Fixed Guideway Systems. FTA also continued to audit alcohol and drug testing programs.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Through FTA formula and discretionary capital investment programs, funds were used to replace older bus and rail vehicles with newer, safer ones and invest in improvements in track and transit facility conditions. This funding approach re-capitalized investments by replacing older vehicles and assuring that bus facilities remained in proper condition.

With regard to rail vehicles, federal and local funding supported replacement and rehabilitation of existing rail fleet and restoration of rail facilities, such as stations, track, yards, and shops. Nationally, there are 10,722 miles of track, 2,862 stations, and 1,279 rail maintenance facilities. According to the Department's most recent Conditions and Performance Report (2002), recent transit funding provided by all levels of government stabilized, but did not improve the condition of the nation's rail vehicles and facilities.



Bus Safety

In FY 2004, FTA worked with its partners—the American Public Transportation Association (APTA), the Community Transportation Association of America, and AASHTO—to implement and promote the Model Transit Bus Safety and Security Program. This included developing technical assistance documents for small/rural, medium, and large transit agencies on security, driver selection and training, vehicle maintenance, and drug and alcohol abuse programs.

In addition to FTA's actions, FMCSA, which is responsible

FTA has funded improvements to bus shelters and new bus purchases as part of its capital projects.

for safety regulation of the nation's motorcoach industry involved in interstate commerce, continued to place significant emphasis on motorcoach safety. In this light, FMCSA conducted in excess of 30,000 roadside inspections of interstate buses and compliance reviews of motorcoach companies. Additionally, FMCSA initiated a Bus Crash Causation Study.



HAZARDOUS MATERIALS SAFETY

FMCSA relies on the Department's Research and Special Programs Administration's (RSPA) HAZMAT Materials Information System to provide data on HAZMAT incidents. There is an approximate 3 to 4 month time lag in the reporting due to data revisions and the 30-day time limit in reporting incidents from date of notification. As a result, the number of 2004 serious HAZMAT incidents will not be available until the December 2004/January 2005 timeframe.

The following table depicts the performance measures and goals related to Hazardous Materials Safety.

HAZARDOUS MATERIALS SAFETY – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Number of serious hazardous materials incidents in transportation	FMCSA	598	471 ^r	485 ^r	509	450 ¹	Met
		(Target N/A ²)	(Target 523)	(Target 515)			
^r Revised							
¹ Preliminary estimate.							
² Data not available.							

FY 2004 Results: FMCSA met the performance target.

FMCSA

The vast majority of serious HAZMAT incidents that occur on the nation's roads involve CMV's. As a result, FMCSA carried out a coordinated motor carrier safety strategy framed around enforcement and compliance operations; cross-modal initiatives; and research, technology, and information management to reduce the number of serious reportable HAZMAT incidents involving CMVs. In 2003, FMCSA and its federal and state partners reduced serious HAZMAT incidents involving CMVs to 376, exceeding its stated goal of 430 incidents. This is well along the way to meeting the goal of reducing the year 2000 baseline of 465 by 20 percent by the year 2010.

The following table depicts FMCSA supplemental performance measures and goals related to HAZMAT Safety.

HAZARDOUS MATERIALS SAFETY – FMCSA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Number of serious CMV HAZMAT incidents in transportation	502	441	430	419	N/A ¹	
	(Target 452)	(Target 384)	(Target 376)			
¹ Data not available.						

FY 2004 Results: Data not yet available for this measure.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Enforcement, Compliance Operations, and Cross-Modal Initiatives

In FY 2004, FMCSA issued a final rule on HAZMAT Permitting, establishing standards and procedures for carriers of high-hazard materials. Safety enforcement operations conducted in 2004 also ensured compliance with Federal Hazardous Materials Regulations (FHMR), and included the following:

- ◆ 46 cargo tank facility reviews,²
- ◆ 191 HAZMAT shipper reviews,²
- ◆ 1,409 HAZMAT compliance reviews,²
- ◆ 5,120 HAZMAT package inspections,²
- ◆ 128,109 HAZMAT vehicle inspections,²
- ◆ 474 Security Contact Reviews and 1,166 Security Sensitivity Visits.²

FMCSA participated with state partners and other modal administrations in the National Hazardous Material Shipper Check 2004. In addition, FMCSA led strike force activities aimed at improving safety, security, and identifying undeclared shipments of HAZMAT. Within the Department, FMCSA led a HAZMAT cross modal working group to determine training needs, determine the effectiveness of security measures, improve employee training standards in the regulations, determine the effectiveness of current packaging standards, and develop memorandums of understanding between modes for enforcement and policy interpretations.

Research, Technology, and Information

In an effort to reduce accidents of HAZMAT carriers, FMCSA initiated research toward the development of a HAZMAT shipper prioritization algorithm to identify high-risk HAZMAT carriers. FMCSA also enhanced data collection through extensive involvement in intermodal efforts to create a unified HAZMAT inspection and enforcement database.

FMCSA continued its efforts to heighten the awareness and sensitivity of motor carriers transporting HAZMAT to security threats, and to strengthen and support programs that ensure the safe and secure transport of HAZMAT. In FY 2004, these activities included working with the states to develop a network to communicate alerts to truck inspectors and the trucking industry on security information, completing development and distribution of 37,000 copies of *Guidelines for Developing and Effective Security Program for the Transportation of Hazardous Materials* to HAZMAT carriers nationwide, and training law enforcement and carriers in security awareness through its Trucks and Terrorism Seminars.



FMCSA's Hazardous Materials (HM) Safety Permitting Program, which requires trucking companies planning to haul certain highly hazardous materials to have a special safety permit, will result in safety benefits totaling more than \$26 million over a 10-year period.

² Figures are for activities reported through June 30, 2004.

**MOBILITY AND ECONOMIC GROWTH**

1. SHAPE AN ACCESSIBLE, AFFORDABLE, RELIABLE TRANSPORTATION SYSTEM FOR ALL PEOPLE, GOODS, AND REGIONS.
2. SUPPORT A TRANSPORTATION SYSTEM THAT SUSTAINS AMERICA'S ECONOMIC GROWTH.

STRATEGIC OUTCOMES

- ◆ Improve the physical condition of the transportation system.³
- ◆ Reduce transportation time from origin to destination for the individual transportation user.³
- ◆ Increase the reliability of trip times for the individual transportation user.
- ◆ Increase access to transportation systems for the individual user.³
- ◆ Reduce the cost of transportation for the individual user.
- ◆ Reduce barriers to trade that are related to transportation.
- ◆ Improve the U.S. international competitive position in transportation goods and services.
- ◆ Improve the capacity of the transportation workforce.

Mobility, as much as any other factor, defines us as a Nation and is intertwined with the Nation's economic growth. Our transportation system connects people with work, school, community services, markets, and other people. The U.S. transportation system carries over 4.6 trillion passenger-miles of travel and 3.9 trillion ton-miles of freight every year, generated by more than 276 million people and 6 million businesses.

The Department's aim is an affordable, reliable, and accessible transportation system. To achieve reliability and accessibility, our transportation system frequently relies on a common public infrastructure that is maintained on limited national resources – our land, waterways, and airspace. The Department's objective is to optimize capital investment in these public systems and manage them to maximize the benefit to all Americans. In FY 2004, the Department's mobility and economic growth programs improved the condition, performance, and services provided by the nation's transportation system.

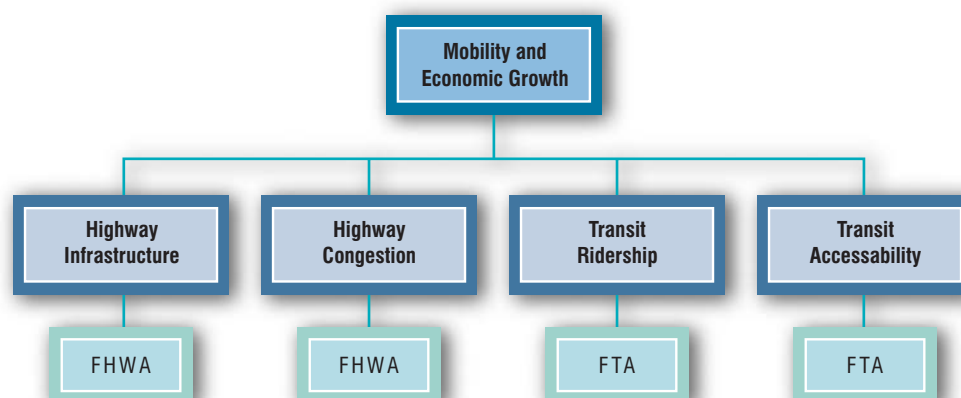
DEPARTMENTAL PERFORMANCE GOALS

- ❶ Improve and expand the National Highway System (NHS) to increase system efficiency and improve safety.
- ❷ Limit annual growth of urban area travel time under congested conditions to 0.2 percent below the otherwise expected increases in congestion.
- ❸ Increase transit ridership to improve urban and rural mobility, and reduce traffic congestion by keeping the average yearly increase in ridership to at least 2 percent, averaged across all transit markets, and adjusted for employment levels.
- ❹ Increase public transit systems' accessibility to those with disabilities.
- ❺ Increase public transportation systems' ability to provide access to job sites.

³ Outcomes are specifically related to the HTF modes.

The Department's Mobility and Economic Growth strategic outcomes are divided into seven strategies. The strategies applicable to the HTF are the Highway Infrastructure, Highway Congestion, Transit Ridership, and Transportation Accessibility strategies.

Under each strategy is the administration responsible for achieving the Departmental performance goals.



HIGHWAY INFRASTRUCTURE

The nation's highway system serves major population centers, international border crossings, intermodal transportation facilities, and major travel destinations. The condition of this system can affect wear and tear on vehicles, fuel consumption, travel time, congestion, and comfort, as well as public safety. Improving pavement and bridge condition is also important to the long-term structural integrity and cost effectiveness of the transportation system. The NHS represents just four percent of total highway miles, but carries one trillion, or approximately 43 percent of VMT annually. While steady progress has been made over the past decade, pavement condition on the NHS can still be improved. Drivers in the United States cross deficient bridges more than one billion times each day. While the 115,000 bridges in the NHS are in better condition than the total U.S. inventory of approximately 590,000 bridges, a significant number are either structurally deficient or functionally obsolete.

The following table depicts the performance measures and goals related to Highway Infrastructure.

HIGHWAY INFRASTRUCTURE – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Percentage of travel on the NHS meeting pavement performance standards for acceptable ride	FHWA	90.9	90.6	90.8 ¹	93.0	90.8 ¹	Not Met
		(Target N/A ²)	(Target 92.0)	(Target 92.5)			
¹ Projection from trends.							
² Data not available.							

FY 2004 Results: FHWA did not meet the performance target.



The percent of pavement on the NHS with acceptable ride quality (International Roughness Index (IRI) 170 inches per mile or less) was 90.6 percent in 2002 (the most current data), primarily because a small number of states with significant total VMT reported deteriorating pavement conditions. Two of these states reported significant and consistently deteriorating pavement conditions over the last four years. The travel on the NHS facilities with a reported IRI of 95 percent or less (good condition) increased from 49.3 percent to 50.0 percent in 2002. This is compared to 42.8 percent reported in 1998. FY 2003 results will be available later this year. Increased travel on smooth roads also indicates improved pavement condition. The goal is to reach a target of 95 percent of vehicle miles traveled on NHS pavements with acceptable ride quality by 2008.

The following table depicts the FHWA supplemental performance measures and goals related to Highway Infrastructure.

HIGHWAY INFRASTRUCTURE – FHWA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Percent of deck area on NHS deficient bridges for all average daily trips (ADT)	30.6	29.9	30.2	26.4	N/A ¹	
	(Target N/A ¹)	(Target 28.6)	(Target 27.5)			
Miles of the Appalachian Development Highway System (ADHS) completed	2,526	2,571	2,608	2,631	2,645	Met
	(Target 2,520)	(Target 2,594)	(Target 2,594)			
r Revised						
1 Data not available.						

FY 2004 Results: FHWA met the performance target for miles of Appalachian Development Highway System completed. Data on percent of NHS deficient bridges is not yet available.

FHWA

FHWA initiated a series of pavement smoothness workshops for the key states that most affect the pavement condition target. Site reviews of pavement production quality assurance systems were also performed in four states. With the states, FHWA introduced a new pavement design guide and conducted 19 additional workshops on various pavement and materials related technologies. Finally, FHWA's asphalt and concrete mobile laboratory visited 15 states to offer technical assistance.



Use of new pavement materials and bridge designs improve durability of bridges.

The percentage of deck area on deficient bridges on the NHS declined from 32.6 percent in 1998 to 30.2 percent in 2003. FHWA made significant progress toward the implementation of high



MANAGEMENT'S DISCUSSION AND ANALYSIS

performance materials to ensure more durable bridges with 42 states using high performance steel and 44 states using high performance concrete in bridges. FHWA also helped states implement the load resistance and factor design specifications, which provides a more reliable and uniform level of safety for bridges. At least 46 states fully or partially implemented the Load and Resistance Factor Design (LRFD) specification for bridges, or are developing LRFD implementation plans.

FHWA's highway bridge and structure Research and Intelligent Transportation Systems (ITS) program activities focused on improved stewardship and management approaches, such as the development and testing of innovative technology for non-destructive evaluation and methodologies for bridge management. A systems approach to design, construction, inspection, and maintenance to assure more reliable, durable bridges was emphasized. A wide variety of activities to assure bridge safety, reliability, and security continued with a particular emphasis on developing techniques to control structural corrosion and prevent other damage.

HIGHWAY CONGESTION

Traffic congestion on the nation's highways has steadily increased over the past 20 years as the population of drivers, number of vehicles, and travel volume continue to increase at a faster rate than system capacity. According to the Texas Transportation Institute, drivers experience more than 3.5 billion hours of delay and waste 5.7 billion gallons of fuel annually due to traffic congestion. The economic impact of congestion, including wasted fuel and time, was estimated to be more than \$63 billion in 2002 (the most current data). Over 61 percent of the cost was experienced in the 10 metropolitan areas with the most congestion. Slowing the growth of congestion and delay aids urban travelers' mobility and productivity and curbs economic inefficiencies induced by congestion.

The following table depicts the performance measures and goals related to Highway Congestion.

HIGHWAY CONGESTION – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Percentage of total annual urban-area travel that occurs in congested conditions	FHWA	30.4	30.5 ^r	30.8 ¹	32.3	30.9 ¹	Met
		(Target 30.0)	(Target 30.9)	(Target 31.6)			
^r Revised							
¹ Projection from trends.							

FY 2004 Results: The Department met the performance target.

The estimated percent of congested travel was 30.8 percent in 2003, a figure well below the anticipated increase to 31.8 percent. The estimated result was only 0.3 percent higher than in 2002 and below the anticipated increase for the second straight year. The results for the 2002-2003 period suggest that the overall rate of growth in traffic congestion nationwide is slowing, and is much less than recently projected increases of 0.7 percent annually.



The following table depicts the FHWA supplemental performance measures and goals related to Highway Congestion.

HIGHWAY CONGESTION – FHWA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Of annual urban-peak period travel time, additional percentage of travel time attributable to congestions	53 ^r	55 ¹	N/A ³	N/T ²	N/A ³	
	(Target 52)	(Target 53)	(Target 54)			
For the individual traveler in urban areas, average annual hours of extra travel time due to delays	32.0 ^r	31.9 ¹	N/A ³	N/T ²	N/A ³	
	(Target 31.7)	(Target 32.2)	(Target N/T ²)			
Number of metropolitan areas where integrated ITS infrastructure is deployed	52	57	57	70	N/A ³	
	(Target 56)	(Target 61)	(Target 64)			
<div>^r Revised</div> <div>¹ Projected from trends.</div> <div>² No target.</div> <div>³ Data not available.</div>						

FY 2004 Results: Data not yet available for these measures.



Electronic surveillance of traffic flow allows quick detection of congestion.

FHWA

FHWA continued to focus states on the use of highly integrated ITS, which uses electronic information and communications technology to extend the capacity of the highway infrastructure to improve traffic flow and reduce bottlenecks. As a result, 62 of the original 75 metropolitan areas targeted in 1996 for deploying ITS have achieved a "medium" or "high" level of integrated ITS deployment.

FHWA also advocated the use of the 511 travel telephone number information service, another ITS tool, to provide information to drivers on traffic problems in their geographic area. As a result, this information is now accessible to about 25 percent of the nation's population.

FHWA began to develop a measure of travel times on significant freight corridors and border crossings to better understand and target efforts to keep freight moving as efficiently as possible in corridors and borders. The Freight Analysis Framework (FAF) was used to explore options to re-route traffic on



MANAGEMENT'S DISCUSSION AND ANALYSIS

the transportation network in the event of the loss of major transportation infrastructure. The Maritime Administration also used the FAF extensively to evaluate the potential modal diversion of freight from highway to seaway in support of proposed legislation.

FHWA allocated funding to 108 projects under the National Corridor Planning and Development and Coordinated Border Infrastructure Grants Program to improve planning and project development in order to improve the flow of people and freight.

Finally, FHWA was instrumental in guiding two Latin America Trade and Transportation studies, involving 13 and 16 state agencies respectively, to address the transportation response of the United States to increased trade with Latin America

TRANSIT RIDERSHIP

In 2003, people rode public transportation systems 9.0 billion times, traveling to and from work, medical appointments, school, and social events. Public transit offers many benefits. It is one of the safest ways of traveling, relieves road congestion, and reduces air pollution. But achieving these benefits depends upon ridership. The federal transit investment combined with state and private sector funds make public transportation possible for millions of Americans every day.

The following table depicts the performance measures and goals related to Transit Ridership.

TRANSIT RIDERSHIP – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels	FTA	4.3 ¹	0.2 ¹	0.7 ^r	2.0 ³	0.7 ²	Not Met
		(Target N/A ⁴)	(Target 3.5)	(Target 2.0)			
^r Revised							
¹ Through FY 2002, the figures shown are for the average change in passenger miles only. A new measure that uses data on transit “boardings” for the largest 150 transit operators was introduced in 2003. These 150 operators account for about 94 percent of all transit ridership.							
² Preliminary estimate.							
³ FTA established a stretch goal of 2 percent per year.							
⁴ Data not available.							

FY 2004 Results: The Department did not meet the performance target. It should also be noted that the transit ridership target for 2005 may also be affected as detailed on the next page.



The following table depicts the FTA supplemental performance measures and goals related to Transit Ridership.

TRANSIT RIDERSHIP – FTA SUPPLEMENTAL PERFORMANCE MEASURES AND GOALS						
Performance Measures	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Passenger-miles traveled (in billions) by transit	46.5 (Target 44.8)	46.0 (Target 47.5)	46.2 (Target 48.0)	46.5	N/A ¹	
Average condition of motor bus fleet (on a scale of 1 (poor) to 5 (excellent))	3.09 (Target 3.2)	3.12 (Target 3.25)	 (Target 3.20)	3.24	N/A ¹	
Average condition of rail vehicle fleet (on a scale of 1 (poor) to 5 (excellent))	3.44 (Target 3.24)	3.48 (Target 3.29)	 (Target 3.50)	3.55	N/A ¹	
¹ Data not available.						

FY 2004 Results: Data not yet available for these measures.

FTA

Transit Ridership

FTA implemented several new initiatives to promote ridership and recognized transit agencies that developed innovative and successful programs to increase ridership. In April 2004, FTA selected four communities to receive grants in an innovative pilot program aimed at increasing public transit ridership through targeted, customized marketing methods. The results will eventually be made available to communities nationwide. FTA also worked with the National Transit Institute (NTI) to develop a two-day course on "Market-Based Ridership Strategies" which was piloted at the Triangle Transit Authority in Durham, North Carolina in June 2004. FTA launched a new Web site page dedicated to innovative practices from the transit industry on increasing transit ridership. The site showcases innovative practices from the transit agencies that have resulted in increased ridership. Finally, FTA worked with the Transit Cooperative Research Program on a study entitled, *Determining the Elements Needed to Create High Ridership Transit Systems*, which is expected to be completed by the end of 2005.



New initiatives encourage bicycle riders to use transit as well.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Improved Bus and Rail Fleet Condition

Between 2000 and 2002, the average age of each type of bus vehicle, except trolley buses, declined. In the case of rail, the average age of heavy rail vehicles declined from 23 to 20 years, outweighing slightly smaller increases in the average ages of other rail vehicles. Average bus and rail vehicle conditions normally range between 3.0 and 4.0, which reflects an "adequate" condition. Anything lower than 3.0 would be less than adequate, while a level higher than 4.0 would require an overly ambitious replacement program where vehicles are replaced prior to their FTA mandated minimum replacement ages.

FTA's accomplishments related to major capital investment grants in FY 2004 included tracking over 120 current planning studies that considered major transit capital investments and recommending funding for meritorious New Starts projects; tracking 26 projects in the preliminary engineering (PE) phase of project development with the total capital cost estimated at \$18.3 billion; and tracking 11 projects in the final design phase of project development. Since 1992, FTA has approved or recommended in the President's budget a total of 51 Full Funding Grant Agreements (FFGA) to improve the transit infrastructure. In FY 2004, the federal share of the projects under construction totaled \$9.03 billion nationwide. When state and local funds are included, these projects will result in an investment of over \$16.1 billion in new mass transit infrastructure from coast to coast.

Finally, FTA's R&T program partnered with the transportation industry to establish preeminence in U.S. transit technology, institutions, and customer services, and increase the quality and level of transit services. FTA evaluated the effectiveness of different strategies to increase ridership. As the most effective measures were identified, FTA provided transit agencies with technical assistance to help make them better equipped to employ new service methods and technologies that improve their operations and lead to increased ridership. The intended result of such efforts is the deployment of technological innovations to improve personal mobility, minimize automobile fuel consumption and air pollution, increase ridership, and enhance the quality of life in all communities.

TRANSPORTATION ACCESSIBILITY

Transportation is vital in maintaining independence and mobility for people with disabilities, linking them to employment, health care, and participation in the community. The President's New Freedom initiative seeks to create a more accessible public transportation system for individuals with disabilities. The Personal Responsibility and Work Opportunity Reconciliation Act limits the time a person can receive welfare benefits, and generally requires recipients to participate in job and training activities. For many of these people, access to public transportation is the key to making a transition from welfare to work.



The following table depicts the performance measures and goals related to Transportation Accessibility.

TRANSPORTATION ACCESSIBILITY – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Percentage of bus fleets Americans with Disabilities Act (ADA) compliant	FTA	85	90	93	92	95 ¹	Met
		(Target 83)	(Target 86)	(Target 89)			
Percentage of key rail stations that are ADA compliant ²	FTA	67	77	82	89	82	Not Met
		(Target 58)	(Target 68)	(Target 79)			
Number of employment sites (000s) that are made accessible by JARC transportation services	FTA	28.4	52.1	92 ^r	50	92 ¹	Met
		(Target 15.7)	(Target 20.4)	(Target 23.5)			
^r Revised							
¹ Preliminary estimate.							
² Rail station measure does not reflect stations under a time extension as discussed below.							

FY 2004 Results: The Department met the bus target for compliance with the Americans with Disabilities Act (ADA) and number of employment sites made accessible by Job Access and Reverse Commute (JARC) services. The Department did not meet the target for percentage of rail stations that are ADA compliant.

FTA

ADA-Compliant Bus Fleets

Since enactment of the ADA in 1990, FTA has been working to make public bus, rail, and paratransit services accessible to individuals with disabilities. One major goal is to make the national fixed-route bus system 100 percent lift-equipped, ramp-equipped, or designed with low floors. FTA met the target for ADA compliance by ensuring that bus fleet vehicles were equipped with wheelchair lifts or ramps. Prior to 1990, approximately 35 percent of the buses in the active fleet of over 50,000 transit vehicles were lift-equipped. In 2002, the fleet was 90 percent ADA-compliant, compared to 77 percent in 1999. FTA exceeded its target of 92 percent in FY 2004, and is on target to meet its goal of a 100 percent ADA-compliant bus fleet by the year 2007.



FTA has funded purchase of low floor buses to meet ADA requirements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

ADA-Compliant Rail Stations

Of the 547 key stations designated to be ADA compliant, only 437 or 82 percent met the goal. Although the ADA required all key stations to be accessible by July 26, 1993, the Department's ADA regulation at 49 Code of Federal Regulations (CFR) 37.47 (c)(2) permits the FTA Administrator to grant an extension up to July 26, 2020 for stations requiring extraordinarily expensive structural modifications to bring them into compliance. Currently, there are 138 stations under FTA approved time extensions, and these stations are not included in the goal. Although transit operators have made significant progress in meeting the goal, the remaining stations tend to be those that require the most significant amount of work. Many operators are discovering that the scope of work that is needed exceeds their original projections. As a result, more time will be required to complete the necessary modifications. In recognition of these realities, FTA lowered its projections for achieving full key station accessibility.

JARC

FTA met the FY 2004 target for employment sites that are made accessible by JARC transportation services. This measure assesses one part of the JARC program—the number of employment sites made accessible that were not previously reached either directly by demand-responsive or that are within one-quarter mile of the new service stop for fixed route service. Services that make an employment site accessible may include, but are not limited to, carpools, vanpools, and other demand-responsive services as well as traditional bus and rail public transit.

In areas that receive JARC funds, the program successfully met the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. Grantees used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems and demand responsive services, to the provision of customer information. In each community that received a grant, JARC transportation services reached new employment sites, making thousands of entry-level jobs and employers accessible for the program's target populations. New stops increased access to critical employment support sites, particularly childcare and job training facilities.

HUMAN AND NATURAL ENVIRONMENT

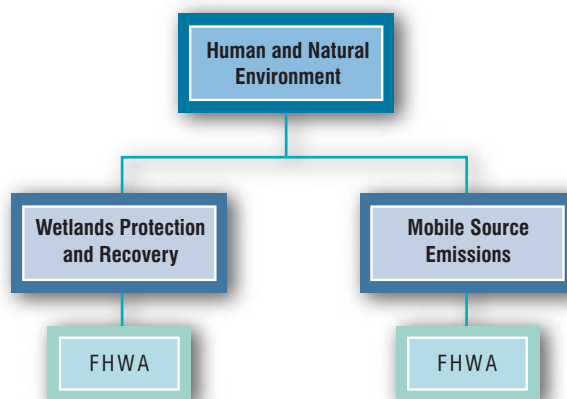
PROTECT AND ENHANCE COMMUNITIES AND THE NATURAL ENVIRONMENT AFFECTED BY TRANSPORTATION.

STRATEGIC OUTCOMES

- ◆ Improve the sustainability and livability of communities.
- ◆ Reduce the adverse affects of transportation on ecosystems and the natural environment.
- ◆ Improve the viability of ecosystems.
- ◆ Reduce the adverse effects of transportation facilities on the natural environment.
- ◆ Improve equity for low income and minority communities concerning the benefits and burdens of transportation facilities and services.
- ◆ Reduce the amount of pollution from transportation sources.

**DEPARTMENTAL PERFORMANCE GOALS**

- ❶ Reduce adverse effects on ecosystems and improve ecosystem viability.
- ❷ Reduce transportation pollution.



Transportation makes our communities more livable, enhancing the quality of our lives and our society. However, transportation generates undesired consequences too, such as pollution, noise, and the use of valuable land and degradation of fishery habitat. No matter how much is done to improve the capacity and efficiency of the system, we cannot consider our programs to be successful unless we also manage the effects on our environment, and ultimately our quality of life.

The Department's objective is to advance the benefits of transportation while minimizing its negative environmental impacts. In 2004, the Department's environmental programs prevented as much harm as possible from being done to the environment by transportation projects and operations.

***Wetlands Protection and Recovery***

Wetlands are an important natural resource. They provide natural filtration of pollutants, and they store and slow down the release of floodwaters, thereby reducing damage to downstream farms and communities. Wetlands also provide an essential habitat for biodiversity. But many of the nation's wetlands have been lost to development over the years, before their value was fully recognized. Highways and transportation facilities (location, construction, and operation) can be a significant factor affecting these ecosystems.



The following table depicts the performance measures and goals related to Wetlands Protection and Recovery.

WETLANDS PROTECTION AND RECOVERY – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
On a program-wide basis, acres of wetlands replaced for every acre affected by federal aid Highway projects (where impacts are unavoidable)	FHWA	2.1	2.7	2.7	1.5	2.1	Met
		(Target 1.5)	(Target 1.5)	(Target 1.5)			

FY 2004 Results: The Department met the performance target.

In FY 2004, federal aid projects nationwide impacted 847 acres of wetlands, and provided 1,761 acres of compensatory mitigation.

FHWA

The Exemplary Ecosystem Initiatives are FHWA’s hallmark demonstration of the Agency’s commitment to environmental stewardship and ecosystem conservation. An exemplary ecosystem initiative is a cutting-edge action or measure that will help sustain or restore natural systems and their functions and values using an ecosystem or landscape context. FHWA exceeded its target of designating two additional initiatives for FY 2004 by recognizing seven new exemplary efforts, bringing the total the Agency designated thus far to 15.

Context sensitive solutions (CSS), also known as context sensitive design (CSD) and Thinking Beyond the Pavement (TBTP), is a new approach to transportation planning that recognizes that transportation has wide societal impacts and is not merely the practice of engineering. In FY 2004, FHWA endorsed CSS, which is being pioneered by a number of state DOTs. The qualities of a project produced by CSS and the characteristics of the process that yields such projects have also been identified and are generally accepted by state DOTs. This new approach recognizes that transportation planners, community builders, and the public have an important role to play. By the end of FY 2004, 18 states are projected to adopt and use the context sensitive solutions/design approach in developing and delivering federal aid projects.

Finally, FHWA delivered a series of “Linking Planning and National Environmental Policy Act: Towards Streamlined Decision-making” workshops to FHWA division offices, FTA regional offices, state DOTs, metropolitan planning organizations, transit agencies, state/county/local planning agencies, and stakeholders.



MOBILE SOURCE EMISSIONS

The National Ambient Air Quality Standards target six major pollutants as among the most serious airborne threats to human health. Transportation is a major contributor to some of the pollutants, particularly ozone, carbon monoxide, and particulate matter. About two-thirds of transportation-related emissions come from on-road motor vehicles. The quality of our air is a public good and the cost of these pollutants is not captured in the marketplace. For this reason, the Government works to mitigate this negative impact.

The following table depicts the performance measures and goals related to Mobil Source Emissions.

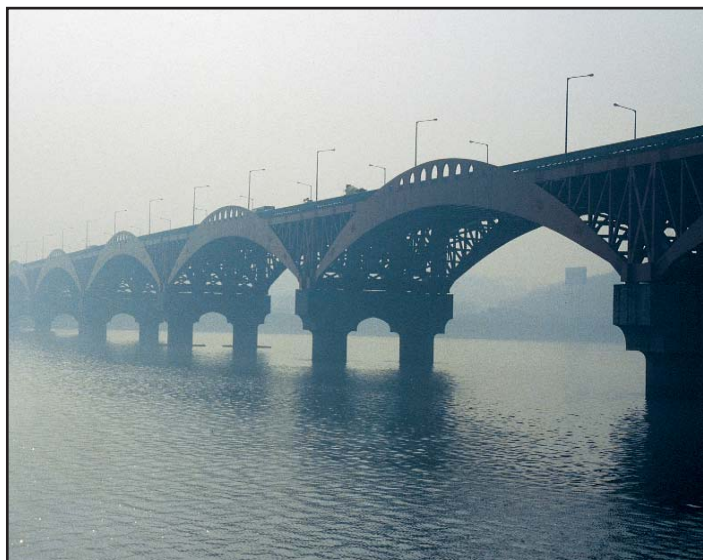
MOBIL SOURCE EMISSIONS – DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
Monthly average number of areas in transportation emissions conformity lapse	FHWA	N/A ¹	6	6	6	6	Met
		(Target 6)	(Target 6)	(Target 6)			
¹ Data not available.							

FY 2004 Results: The Department met its performance goal.

FHWA

Areas throughout the United States with a non-attainment or maintenance designation are required to meet transportation conformity requirements in the Clean Air Act. Transportation conformity ensures that emissions from planned transportation activities are consistent with clean air goals of the area, and will not create new violations of the National Ambient Air Quality Standards (NAAQS), increase the frequency or severity of existing violations, or delay the attainment of the NAAQS in designated non-attainment or maintenance areas.

In anticipation of the implementation of a new 8-hour Ozone and PM 2.5 standard, FHWA worked with the Environmental Protection Agency and FTA to provide timely regulations and guidance to assist newly designated non-attainment areas in meeting conformity requirements under the new standards. FHWA conducted numerous outreach activities with conformity stakeholders for the implementation of the new conformity rule. In cooperation with the Association of Metropolitan Planning Organizations (AMPO), FHWA supported the formation of an Air Quality Subcommittee to address specific conformity issues faced by metropolitan planning organizations, specifically on emissions modeling issues and emerging





MANAGEMENT'S DISCUSSION AND ANALYSIS

issues related to the implementation of the new air quality standards. FHWA also initiated a number of research studies to advance the state of the practice in the air quality and conformity analysis. The "It All Adds Up to Cleaner Air" public education program reached 81 community partners (up from 14 in 2001) in more than 30 states.

HOMELAND AND NATIONAL SECURITY

ENSURE THE SECURITY OF THE TRANSPORTATION SYSTEM FOR THE MOVEMENT OF PEOPLE AND GOODS, AND SUPPORT THE NATIONAL SECURITY STRATEGY.

STRATEGIC OUTCOMES

- ◆ Reduce the vulnerability of the transportation system and its users to crime and terrorism.
- ◆ Increase the capability of the transportation system to meet national defense needs.

Transportation security is equal in importance to transportation safety. The Department's objective is to contribute to homeland and national security by providing strategic mobility, and by working in tandem with the Department of Homeland Security (DHS) to minimize the vulnerability of the U.S. transportation system to disruption, damage, or exploitation through crime or terrorism. In FY 2004, Departmental homeland and national security programs continued providing strategic mobility to the Department of Defense (DOD) and continued reducing the transportation system's vulnerability to crime and terrorism.

DEPARTMENTAL PERFORMANCE GOALS

- ① Increase national defense capability.
- ② Ensure sufficient contingency sealift and commercial outload ports are available to support DOD mobilization requirements.

Although there were no specific performance measures assigned to the HTF modes in support of this strategic objective, the following are actions the modes took to improve the security of the nation's transportation system.

FHWA

FHWA improved transportation security; supported national defense mobility; and improved disaster preparedness, response, and recovery through collaboration with its federal, state and local government partners, private industry, and the DHS. FHWA also delivered emergency response preparedness workshops in 17 of the top 30 metropolitan areas and 12 other key locations, including freight-intensive corridors.

FHWA worked closely with the Transportation Security Administration (TSA) in the development of the National Transportation Systems Security Plan that provides the overall framework for the programs and activities needed to enhance transportation security.



MANAGEMENT'S DISCUSSION AND ANALYSIS

In FY 2004, FHWA supported the Department's efforts to establish and maintain an effective interaction between the transportation industry and the DHS. FHWA staff provided a wide range of technical assistance to the Department's Office of Intelligence and Security in high level security venues including the Homeland Security Council, the Deputies Committee, and the Interagency Incident Management Group.

FHWA also represented the Department on a number of security working groups with the DHS, including the Commercial Operations Advisory Committee and its Maritime Transportation Security Subcommittee, Operation Safe Commerce Executive Steering Committee, Universal Electronic Freight Manifest Initiative, Border Station Partnership Council, US/Mexico Bridges and Border Crossings Group, Trans Border Working Group, Assessment Working Group of the Interagency Coordinating Team for Homeland Security Presidential Directive (HSPD)-8, and Risk Assessment Roundtable. FHWA provided technical advice and assistance to DHS and its operating administrations on the effectiveness and impact of proposed security regulations, policies, or procedures from the perspective of the highway owner/operator and user communities.

Finally, FHWA worked closely with AASHTO to address transportation security concerns. FHWA participated in the AASHTO's Task Force on Transportation Security, which published a number of guidance documents, including a *Guide to Vulnerability Assessments*, a *Guide to Updating Highway Emergency Response Plans for Terrorist Attacks*, a *National Needs Assessment for Ensuring Transportation Infrastructure Security*, and a survey of security R&D needs.

FTA

Public transportation has been a frequent terrorist target, including bombings in the London and Paris subways, the Sarin gas attack in Tokyo, and bus bombings in Israel. The Department's Office of Intelligence and Security estimated that in the 1990's, transit was the target of 20 to 35 percent of terrorist attacks worldwide. Though FTA is limited by statute with regard to transit safety and security, it required its large grant recipients to establish comprehensive safety and security programs and demonstrate their technical capacity to carry out those programs.

Following September 11, 2001, through assessments, training, emergency response drills, and accelerated research on chemical detection systems and other security technologies, FTA found the most important actions that transit agencies needed to take immediately to enhance their security were public awareness, employee training, and emergency preparedness. In this light, FTA accomplished the following:

- ◆ **Top 20 Security Action Items.** The Department/FTA published the *Top 20 Security Action Items* for transit providers and provided technical assistance to the 50 largest transit agencies (serving approximately 80 percent of all transit customers) to implement the recommended action steps.



Following September 11, 2001, FTA has taken actions to improve transit security.



MANAGEMENT'S DISCUSSION AND ANALYSIS

- ◆ **Transit Security Public Awareness.** The Department/FTA developed and launched "Transit Watch" in the fall of 2003. This nationwide emergency response passenger awareness program provided transit agencies a variety of media to encourage passengers to be aware of and look for suspicious or unusual activity, understand how and when to communicate their concerns with transit officials, and know how to exit systems in the event of an emergency. This program was developed and implemented in partnership with the APTA, Community Transportation Association of America, American Transit Union, and TSA in the DHS.

FMCSA

In FY 2003, the Secretary transferred responsibility for developing security risk procedures for all persons seeking issuance, renewal, upgrade, or transfer of HAZMAT endorsement for a CDL from FMCSA to TSA. In FY 2004, FMCSA coordinated with and supported TSA in implementing HM security risk procedures through publication of companion rules. Additionally, FMCSA participated with an American Association of Motor Vehicle Administrators-sponsored Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act working group to help the states implement the TSA security requirements.



MEETING THE PRESIDENT'S MANAGEMENT AGENDA (PMA)

Organizational Excellence Strategic Objective:

In FY 2002, President George W. Bush identified his Administration's strategy for improving the management and performance of the federal government. The PMA, as this effort became known, included five government-wide goals. In support, the Department established its "Organizational Excellence" goal, which includes the implementation of the PMA. In addition, this goal required all modes, including the HTF agencies, to identify performance expectations regarding each of the five PMA areas.

In implementing the PMA, the Department aims to achieve the following organizational excellence outcomes:

- ◆ Improve customer satisfaction
- ◆ Improve employee satisfaction and effectiveness
- ◆ Improve organizational performance and productivity.

The Department's PMA goals for FY 2004 are the following:

Strategic Management of Human Capital

This goal focuses on long-term management of the federal workforce and fostering a citizen-centered, results-based government that is organized to be agile, lean, and capable of making timely decisions.

Competitive Sourcing

This goal uses competitive sourcing as a key tool for achieving an efficient and effective competition between public and private sources to deliver federal agencies' commercial-type work, thereby providing the highest quality and the most economical service to Americans.

Financial and Procurement Performance

Improved financial performance is the key aspect for ensuring that agencies have appropriate and accurate data for budget and policy decisions. Ensuring accurate and timely payments and improving accountability to the American people through audited financial statements are other cornerstones of this goal.

Expanded Electronic Government (E-government)

Expanding the use of the Internet to empower citizens will ensure that federal programs are delivered at lower cost and can meet the high public demand for information and services. This will also make the federal government more transparent and accountable.

Budget and Performance Integration

This goal focuses on regular, systematic measurement and accountability for program performance compared to pre-established goals as the means for federal agencies to focus on results rather than process.



PERFORMANCE SUMMARY

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

The Department’s Human Capital Plan guides the HTF agencies’ efforts on this goal. The plan provides for strategic alignment of the workforce, workforce planning and deployment, leadership, and knowledge management. The Department’s plan also contains initiatives to help the Department recruit, develop, and retain the diverse talent needed now and in the future to perform its mission and achieve strategic objectives.



Challenge

The Government Accountability Office (GAO) has stated that the entire federal government faces an impending wave of retirements of long-service, highly competent federal employees. From this arises a large-scale strategic human resource planning issue. While this exodus of talent will not happen overnight, the Department must plan now to maintain required levels of experience, competencies, and knowledge levels in the Department’s civilian, military, and contract workforce. Succession planning, as well as managing and maintaining adequate institutional knowledge, will be crucial for the Department’s ability to carry out its functions during this period of high workforce turnover.

Employees of the HTF agencies are a critical resource for mission delivery.

All of the HTF modes participated in Department-wide human capital efforts. At the HTF modal level, the following actions supported the Department’s Human Capital Plan:

FHWA

With the implementation of its FY 2004 Workforce/Human Capital Plan, FHWA had a much better picture of workforce dynamics. Consistent with the earlier predictions, approximately 67 percent of FHWA’s senior leaders and managers (Senior Executive Service (SES) and GS-15) will be eligible to retire within the next five years. When these possible retirements are combined with other losses from normal attrition and vacancies created by internal promotions, FHWA can expect a 40 percent turnover in its entire workforce by the end of FY 2006.



To fully implement the Strategic Management of Human Capital initiative of the PMA and continue to maintain a fully qualified workforce to deliver FHWA's programs to customers, FHWA required each of its internal organizations to develop a unit plan to formally analyze internal succession and workforce development needs. The unit manager also formulated strategies to meet these future needs.

FHWA also established a clear mandate to continue to provide program and technical expertise to customers while completing a transition from an engineering review and approval organization to one that is more multidisciplinary and embodies the essential elements of major project control and program stewardship. In FY 2004, FHWA maintained employment levels at or above 97 percent of authorized FTE by implementing an aggressive External Recruitment Plan that placed special emphasis on the recruitment of Hispanics and persons with disabilities.

As a part of FHWA's workforce planning and in support of this continuing transition to a more multidisciplinary approach to the oversight and stewardship of the Federal-aid Highway Program, FHWA established a Multidisciplinary Employee Development Program. The goal of the program is to develop and enhance employees' skills necessary to ensure the effectiveness of states' processes in areas that are major project drivers, such as financing, controlling project-level costs, schedule performance, transportation planning, and maintaining accountability over funds.

FHWA enjoyed an attrition rate of nearly four percent which was 40 percent below that of the rest of the federal government in FY 2004. This was attributed to high employee satisfaction with their job, work environment, and Agency leadership.

Finally, FHWA implemented its Leadership Development Program. This program focuses on the early identification of potential leaders. The target audience for this course is GS-11 through GS-13 level employees. As part of this program, the Agency has developed and deployed a new educational course for potential future leaders entitled, "The Foundation for Visionary Leadership."

FTA

FTA took positive steps during FY 2004 to strategically manage its workforce. Since FY 1998, FTA's attrition rate (retirements and departures for other jobs) averaged approximately six percent per year. Internal analysis projected that by 2008, retirements alone could reach as high as 225 FTEs, or 40 percent of FTA's total workforce. Without efforts to train current staff and recruit highly qualified new staff, this potential wave of retirements could result in the loss of institutional knowledge and valuable expertise in managing billions of dollars in transit programs. FTA identified staffing shortages in five core occupations—engineer, community planner, security specialist, transportation program specialist, and information technology (IT) specialist.

FTA chose to address this situation by offering voluntary early retirements and buyouts during FY 2004 to personnel in other occupations. This gave FTA the needed flexibility to recruit the skill-mix needed to meet ongoing and future demands on the Agency, and improve the impact of its programs and focus on customers.

FTA also included in its Strategic Business Plan a performance accountability program for senior executives to measure specific results in transit ridership, transit system security readiness, project management and oversight, and grants management. FTA's senior executives are also evaluated with regard to common accountabilities related to leadership, human resource management, diversity, and the PMA.



MANAGEMENT'S DISCUSSION AND ANALYSIS

NHTSA

In FY 2004, NHTSA implemented a pilot of the new performance management policy requiring movement of all NHTSA GS employees from a pass/fail performance system to a multi-tiered performance management system, as required by the Office of Personnel Management and the Department. NHTSA was also required to demonstrate to the Department that 60 percent or more of employee performance appraisals focused on performance results and provided consequences. This goal was accomplished through updating and revising the performance plan and the incentive awards program policy. NHTSA also participated in the Department's activities to analyze the workforce and begin planning for succession.

FMCSA

Building and sustaining a high-quality workforce is the foundation for FMCSA's organizational excellence. Strategies to prevent gaps in leadership and key programmatic competencies through succession planning and efficient staffing and training are a top priority. To meet these priorities, FMCSA completed a baseline Human Capital Plan in FY 2004. Implementation of this plan is targeted for FY 2005 and will promote alignment of human capital strategies with mission goals and performance targets, expand in-service training with Web-based training to enhance employee knowledge and skills and leadership training to develop future Agency leader, and apply competitive sourcing strategies and public-private competitions to achieve efficient use of human capital assets.

BTS

BTS developed a Human Capital Plan in FY 2004. Implementation of the plan did not occur in FY 2004 pending completion of an Agency realignment that is currently underway. The realignment shifts current areas of agency focus from process to programs, however no changes in the management distribution or structure is inherent in the revised organizational plan.

COMPETITIVE SOURCING

The Department's efforts to determine if current functions can be more efficiently performed by the private sector guides each mode's efforts under this PMA initiative. The Department's plan calls for 35 percent of the Federal Activities Inventory Reform (FAIR) Act inventory to be competed by the end of FY 2004.

Each HTF mode participated in the Department's FAIR Act inventory. Below are the actions taken to identify functions that should be competed and initiation of the competitive process, as appropriate.

FHWA

FHWA conducted feasibility studies to assess baseline costs and potential savings in 26 functional areas encompassing 243 Full Time Permanent positions agencywide. Two areas were selected for competition and those competitions were begun in FY 2004. FHWA also began the transfer of accounts payable and accounts receivable functions to the FAA's operations in Oklahoma. FHWA intends to complete the transition of these functions by the end of calendar year 2004. This transfer supports the Department's efforts to consolidate similar modal functions at the FAA and achieve Department-wide efficiencies.



FTA

In FY 2004, the streamlined competitive sourcing process for FTA's Office of Procurement and Office of Accounting was completed and the studies determined that the Agency's (in-house) most efficient organization (MEO) bid won the competition for procurement and accounting activities.

FTA reviewed other functional areas and the number of positions that will be included in its FY 2005 competitive sourcing studies.

NHTSA

NHTSA completed its first A-76 study, using a standard competitive process of 14 administrative positions in headquarters, 8 of 10 regional field offices, and at the Vehicle Research and Test Center. The Agency's (in-house) MEO bid won the competition. NHTSA is now in the process of identifying future studies and will conduct those in FY 2005.

FMCSA

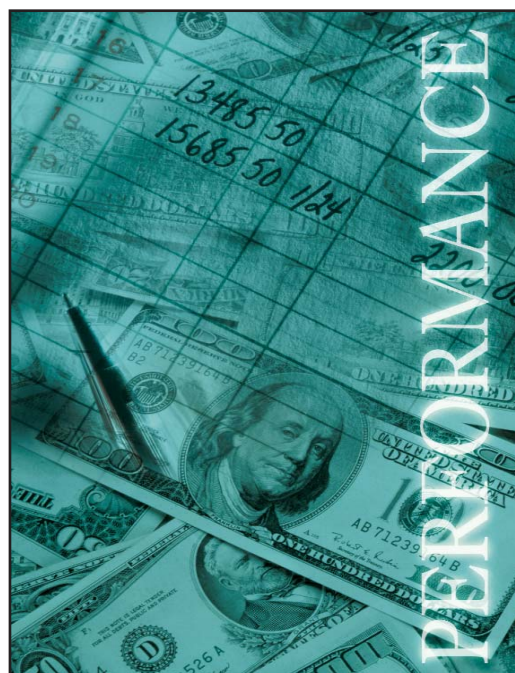
Approximately 40 percent of FMCSA's existing workforce positions are either identified as commercial or are currently being performed by contract support. FAIR Act Inventories were conducted and reviewed, in conjunction with human capital planning, and as a result, four functions are currently undergoing public-private competitions. All four competitions are scheduled to be completed in FY 2005, with two underway in FY 2004.

FINANCIAL AND PROCUREMENT PERFORMANCE

Improved financial performance is a key aspect of improving the government's performance. Knowing the full cost of the Department's and HTF's goods and services is a prerequisite to good program management. Good financial stewardship, excellent and efficient procurement and acquisition systems, and improved financial performance are cornerstones of excellent Departmental management. To achieve this goal, the Department has implemented Department-wide systems for accounting, procurement, personnel, and travel.

Financial Management

HTF received an unqualified or "clean" opinion on its FY 2003 and FY 2004 financial statements. Despite this success in FY 2003 and FY 2004, the audit identified material weaknesses and reportable conditions that the HTF modes, and principally FHWA, must address for future statement audits. During FY 2004, the HTF modes took significant corrective actions to improve financial management and accountability for those weaknesses identified in FY 2003.





FHWA

FHWA aggressively continued efforts to resolve problems identified from the conversion to the Department’s new corporate accounting system, as reflected in the FY 2003 Financial Statement audit. In this light, FHWA completed the reconciliation of critical accounts for FY 2004 as part of an ongoing effort to produce sound data and financial statements. FHWA also developed and issued a wide range of financial management policies and procedures. These policies and procedures address financial statement preparation, reconciliation of accounts, journal voucher management, preparation of grant accruals, and suspense processing.

Finally, FHWA developed a plan for all finance-related positions in the field and at headquarters. As part of strengthening financial management, a special team was formed to review field financial positions, assess future direction for filling positions, and make recommendations for training and work activities to support strong financial management practices.

NHTSA

NHTSA developed “Financial Facts,” a series of charts and graphs that present financial and performance information to managers for decision-making. “Financial Facts” is an analytical tool, comparing year-to-date data (and when applicable, also performance) on each grant program for the last four years. This effort is one of four Departmental “proof of concept” pilots initiated in FY 2004 to demonstrate how financial information can be captured and made readily available to identify cost accounting information and reports. The financial data is pulled from the Departmental accounting system, summarizing the standardized cost information reporting from states and territories to NHTSA.

FMCSA

FMCSA made significant improvement to its financial processes. In FY 2004, FMCSA transferred its accounting and bill paying functions from FHWA to the Federal Aviation Administration’s (FAA) operation in Oklahoma. FMCSA also instituted new business tools to promote fiscal discipline, reliability, and accountability. These actions enabled FMCSA to accelerate the production of financial statements, improve consistency between audited statements and internal reporting databases, and assist in adhering to the Department’s accelerated end-of-year financial reporting and close out dates.

The table on the following page depicts the performance measures and goals for Financial Stewardship. FHWA and FTA each had a part to improve the financial management and project management of mega-projects (projects with costs over \$1 billion) identified as the first two measures.



FINANCIAL STEWARDSHIP - DEPARTMENTAL PERFORMANCE MEASURES AND GOALS							
Performance Measures	Modal Administration	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Target	FY 2004 Actual	FY 2004 Results
For major federally-funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent	FHWA, FTA	N/A ¹	85	88	95	95	Met
		(Target N/A ¹)	(Target 95)	(Target 95)			
For major federally-funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent	FHWA, FTA	N/A ¹	85	88	95	75	Not Met
		(Target N/A ¹)	(Target 95)	(Target 95)			
Percentage of transit grants obligated within 60 days after submission of a completed application	FTA	51	67	83	80	91	Met
		(Target N/A ¹)	(Target 60)	(Target 80)			
¹ Data not available.							

FY 2004 Results: The Department met its target to achieve 95 percent of schedule milestones for major federally-funded transportation infrastructure projects, or missed those milestones by less than 10 percent.

The Department did not meet its goal to achieve 95 percent of cost estimates for major federally-funded transportation infrastructure projects, or missed them by less than 10 percent. There were a total of 16 projects (4 in FTA and 12 in FHWA) that met the definition of major transportation infrastructure projects. In FY 2004, 12 of 16 projects (3 in FTA and 9 in FHWA) were within cost estimates established.

The Department met its transit grant obligation timeliness target.

Challenge

The OIG has stated that the Department's ability to achieve its strategic goals of increased mobility, improved safety, and sustained economic growth undoubtedly will be challenged in the face of an unprecedented federal deficit of about \$374 billion. Aggressive oversight is needed to ensure that the over \$37 billion annual federal investment in highway and transit projects is well managed and protected from fraud. Improvements to project oversight and efficiency can have major results. The Department must also ensure that all tax dollars due to the HTF are received.

FHWA

In 2004, FHWA issued new guidance on cost estimation for major projects. Such estimates are central to establishing the basis for key project decisions, establishing the metrics against which project success will be measured, and communicating the status of a project at any given point in time. Logical and reasonable cost estimates are also necessary in maintaining public confidence and trust throughout the life of a major project. FHWA recognizes that cost increases over and above the early planning and environmental estimates for major



MANAGEMENT'S DISCUSSION AND ANALYSIS

transportation projects have become an increasing concern to Congressional and political leaders, Federal and State executives, and auditing agencies.

To strengthen oversight on all construction projects in addition to mega-projects, FHWA issued the *Construction Program Management and Inspection Guide* to all its Division offices. A follow-up workshop will be delivered later in calendar year 2004. This document provides guidance on performing construction oversight at the program and project level. The guide focuses on construction inspection practices and techniques that can be used for ensuring effective oversight, and reflects current philosophy on construction program management and stewardship.

FTA

FTA had four mega projects (active New Starts projects with FFGAs that exceed \$1 billion). The four projects are: New Jersey Hudson-Bergen – MOS II Light Rail, San Juan Tren Urbano Heavy Rail, Denver Southeast Corridor Project, and Seattle Central Link Light Rail. Three of these projects (New Jersey Hudson-Bergen, Denver Southeast Corridor, and the Seattle Central Link Light Rail) were within 10 percent of the cost estimate of their current FFGAs. San Juan Tren Urbano was 36 percent over the cost estimate in its current FFGA. FTA is working closely with the grantee to address the cost, schedule, and program management issues. Three of these projects (New Jersey Hudson-Bergen, Denver Southeast Corridor, and Seattle Central Link Light Rail) were within 10 percent of the schedule milestones of the current FFGAs.

FTA also initiated a risk assessment program for its major capital projects. The risk assessment for project cost and schedule is performed by FTA's Project Management Oversight (PMO) contractor and identifies and ranks the highest areas of risk. The report is then used as a guide to establish a risk mitigation plan with which to monitor risk through the completion of the project. The risk assessment received in FY 2004 enabled FTA and the grantee to proactively manage projects.

As part of its grant management improvement program, FTA accomplished several key activities to improve grant processing time. This included making improvements to the Transportation Electronic Award and Management (TEAM) system used to make grants, an expedited notification of certification by the Department of Labor, and faster start up of the grant process at the beginning of the fiscal year. In addition, FTA modified its internal business processes to expedite grant processing.

FTA obligated 91 percent of grants within 60 days, including some grant applications received in FY 2003 and obligated in FY 2004. As of the end of FY 2004, FTA had obligated 1,757 grants in 60 days or less. The average days-to-award was 30 days.



EXPANDED ELECTRONIC GOVERNMENT

The federal government can secure better services at lower cost through electronic government (E-Government), and can meet high public demand for E-Government services. This Administration's goal is to champion citizen-centered E-Government that will result in a major improvement in the federal government's value to its citizens.

FHWA

FHWA supported the Department's team to implement a new payroll system. FHWA also implemented the new timekeeping system and is working toward full implementation of the new payroll system in FY 2005 as currently scheduled. FHWA participated on a Department team to select a new end-to-end automated travel payment system, as required by the General Services Administration (GSA). This included identifying requirements and assessing those systems on the GSA schedule. FHWA also participated in a new Departmental initiative to consolidate grant systems within the Department. This activity is in support of the federal Grant.gov initiative to make identifying and applying for federal grants much easier for the public.



FTA

FTA participated in a new Departmental initiative to consolidate grant systems within the Department. This activity is in support of the federal Grant.gov initiative to make identifying and applying for federal grants much easier for the public.

NHTSA

NHTSA registered 100 percent of all Web sites (Internet/Intranet) with the Office of the Secretary of Transportation (OST) for Section 508 compliance and is ahead of target implementation for FY 2004.

FMCSA

FMCSA led the Department's initiative for the Business Gateway and leveraged this Web portal for providing FMCSA business services to motor carriers. In addition, FMCSA increased its partnership in several additional government-wide or Department-wide e-government initiatives that will help the Agency accomplish its missions and goals, such as Grants.gov, E-Authentication, and E-Rulemakings. Finally, FMCSA in partnership with a trucking industry workgroup, worked on data harmonization issues among forms. As a result, all required forms have been converted to electronic format and included in the E-forms Catalog. A Web E-forms portal was completed and launched on March 31, 2004.

BTS

BTS completed the Certification and Accreditation (C&A) of all major IT systems and began the process of training IT project managers on C&A requirements.



BUDGET AND PERFORMANCE INTEGRATION

This initiative follows through on the President's commitment to build a results-oriented government that funds effective programs and reforms or terminates ineffective programs.

FHWA

FHWA moved aggressively to implement managerial cost accounting during FY 2004. The Agency hired Grant Thornton (GT) in FY 2003 to assist in the implementation process. GT has significant experience implementing cost accounting in both the private and public sector, including such federal agencies as the U.S. Patent Office, Department of Interior, and Internal Revenue Service. GT identified three cost accounting approaches for FHWA. This includes activity-based costing for the general operating appropriation, project costing for Federal Lands funding, and standard costing for Federal Aid funding. This combination of cost accounting methodologies will ensure full costing.

In FY 2004, an implementation strategy was developed and approved by senior FHWA management and implementation began in FY 2004. In this regard, FHWA completed development of its High Level Design, which includes identification of all products and services provided by the Agency and all supporting work activities conducted by employees in support of the products and services (labor distribution).

This design will be piloted in early FY 2005 and then Agency-wide deployment will begin shortly thereafter. FHWA will use the Department's new Consolidated Automation System for Time and Labor Entry (CASTLE) labor distribution system to capture employee activities. Finally, FHWA identified the requirements for cost accounting software that will be used to produce reports and costs by products/services and goals, and acquired a widely used software tool for cost accounting in both the public and private sector. There is strong support for cost accounting within the Agency as a more informed means of resource distribution and program oversight and delivery.

FTA

FTA made progress in two areas that will increase its efficiencies. In FY 2004 FTA better identified performance measures and key outcomes for its major programs.

FTA also solicited contractor support in FY 2004 to identify and implement a cost accounting methodology that will satisfy mandatory managerial and legal requirements and will improve FTA's cost assignment efforts. FTA plans to make significant progress in FY 2005 to implement cost accounting.

NHTSA

NHTSA revised its performance appraisal system to link employee actions to goals. As part of submitting the FY 2006 Budget, NHTSA participated in the Department's pilot with the Office of Management and Budget (OMB) to provide marginal cost of performance information for new safety initiatives. This activity is part of the Department's implementation of cost accounting Agency-wide.



FMCSA

FMCSA's FY 2004 budget request was recognized as one of the first budget submissions in the Department to fully integrate performance strategies, targets, and plans directly into the budget. This integration of performance measures into the Agency's budget provided a direct connection between program resources and accountability for program performance. In addition, FMCSA made significant progress in developing its Managerial Cost Accounting (MCA) project, which is focused on developing an analytical tool to identify the costs of Agency business processes in order to guide its managers in more efficient utilization of Agency resources.

BTS

BTS made limited progress on this PMA initiative during FY 2004. BTS has been operating without a director for a year and a new director has not been named. Until a new director has been named, a new strategic plan cannot be developed to fully integrate budget and performance.



PROGRAM ASSESSMENT RATING TOOL (PART)

OMB institutionalized PART to answer whether a federal program is demonstrating value to the taxpayer. PART is intended to demonstrate that a program 1) has a track record of results, and 2) warrants continued or additional resources.

In FY 2002 (for federal budget year 2004), PART assessments were performed on one HTF program and in FY 2003 (for federal budget year 2005), on four HTF programs. All were considered moderately effective, a more positive program rating from OMB as compared to other federal programs that were assessed during these same time periods. Summary information is provided on each PART grouped by modal administration.

FHWA

Federal-aid Highway Program

Rating – Moderately Effective

The Federal-aid Highway program provides federal financial and technical assistance to states to construct and maintain the national system of roads and bridges.

The assessment found that the program has been generally successful in improving highway safety and maintaining mobility, but that it should also take steps to improve oversight of the states' management of federal highway dollars.

OMB recommended that FHWA:

- ◆ Advocate amending the program's authorizing statute to establish an oversight program to monitor the effective and efficient use of funds;
- ◆ Prepare a plan for improving program and project oversight of states;
- ◆ Direct more resources to comprehensive evaluation activities, particularly at the state project level; and,
- ◆ Devise efficiency measures to show that program delivery is cost-effective.

FHWA Actions Responding to OMB Recommendations

FHWA developed efficiency measures to track (1) the percentage of major federally-funded infrastructure projects that meet schedule and cost estimates established in project or contract agreements, or miss them by less than 10 percent; and (2) the median time to complete environmental impact statements and environmental assessments for the Department's funded infrastructure projects.



FHWA also identified and implemented steps to mitigate the risks involved in a major or mega-project costing over \$1 billion by developing a comprehensive, standard oversight approach that includes the development of financial plans and the monitoring of project costs, schedule, and performance. Monthly cost, schedule, and status reports were prepared for all major projects. Periodic status meetings were held with the State Transportation Agency's project management team, the Department's modal administrations, and other agencies involved in the project to discuss project costs, schedules, quality issues, and the status of other items. These discussions were sufficiently detailed to allow the involved parties to recognize significant issues and develop actions designed to mitigate any adverse impacts and increase emphasis on oversight of higher-level management and financial issues.

Completion Date: Ongoing

Federal Lands Highway Program

Rating – Moderately Effective

The Federal Lands Highway program ensures effective and efficient funding and administration for a coordinated program of public roads and bridges serving federal and Indian lands, provides needed transportation access for Native Americans, and protects and enhances the Nation's resources.

OMB recommended that FHWA:

- ◆ Schedule comprehensive evaluations of program effectiveness; and,
- ◆ Develop a comprehensive evaluation plan based on the commitments made by FHWA in the Memorandum of Agreement (MOA) that implements the President's National Park Service Initiative.

FHWA Actions Responding to OMB Recommendations

Federal Lands formed a team with the National Park Service to develop guidance to facilitate the implementation of an agreement concerning the delivery of a larger Park Roads and Parkway Program. The team identified 11 issues that are critical to the delivery of the program. Several groups are currently working on many of these issues and it has been proposed that additional teams be established to address the remaining issues. The ultimate goal is to develop a comprehensive delivery plan and performance measures.

Completion Date: 9/15/2005

FTA

New Starts Program

Rating – Moderately Effective

FTA's New Starts program provides grants and technical assistance to local transit agencies for new transit construction projects.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The assessment of the New Starts program affirmed that the program is well managed and is administered effectively and appropriately. As a result, this program is also helping FTA meet the Department's mobility goal. This was the second-highest rated PART analysis in the Department for an agency program.

OMB recommended that FTA:

- ◆ Provide a performance-based budget justification for the New Starts program; and,
- ◆ As FTA uses new performance targets to measure performance, the FY 2006 budget should reflect how funding impacts performance.

FTA Actions Responding to OMB Recommendations:

FTA provided a performance-based budget justification for the New Starts program for FY 2005. FTA used the new performance targets to measure performance of the New Starts program. Ridership and cost containment measures were also integrated into the performance based FY 2006 budget to OMB.

FMCSA

FMCSA Grant Program – Block/Formula Grant

Rating – Moderately Effective

The FMCSA grant program distributes block grants to states based on a formula. The Motor Carrier Safety Assistance Program (MCSAP) reduces CMV-involved crashes, fatalities, and injuries through consistent, uniform, and effective state CMV safety programs; and is in close alignment with the Agency mission of saving lives and reducing injuries by preventing truck and bus crashes.

The assessment found that the program is strong overall, but increased statewide commitment is needed to reach the federal annual and long-term goals of the program. Also federal managers and program partners are not held accountable for cost, schedule, and performance results.

OMB recommended that FMCSA:

- ◆ Commit partners to working toward same long-term/annual goals and link state and federal program goal;
- ◆ Promote accountability of federal managers by holding them accountable for cost, schedule, and performance results; and,
- ◆ Use Safe, Accountable, Flexible and Efficient Transportation Equity Act (SAFETEA) reauthorization proposals to effectively distribute \$227 million in grants to states to reward them for implementing CMV safety measures and reduce state fatality rates.

***FMCSA Actions Responding to OMB Recommendations:***

FMCSA now requires its State Division Administrators to submit, each fiscal year, a safety plan to coordinate, focus, and align its state partners with FMCSA's long-term strategic goal of reducing the rates of crashes, injuries, and fatalities involving large trucks and buses. The safety plan identifies large truck safety problems within each state and develops specific strategies and activities to measurably reduce their severity. The plan also includes output and outcome goals to enable federal managers and partners to gauge and assess their success.

NHTSA

NHTSA Grant Program***Rating – Moderately Effective***

The NHTSA Grant Program provides money to every state, territory, and Indian nation to fund a wide range of highway safety programs. State highway programs are funded with Occupant Protection Incentive Grants, Safety Incentive Grants for Primary Seat Belt Laws, State Safety Data Grants, and Emergency Medical Services Grants, among others.

The assessment showed that the program is in close alignment with the Agency mission of saving lives and reducing injuries by preventing vehicle crashes. The assessment also found that NHTSA was successful in meeting its performance goal to decrease the fatality rate and has a good working relationship with states.

OMB recommended that NHTSA:

- ◆ Streamline grant programs to reduce complexity and increase grantee focus on safety performance;
- ◆ Increase the direct appropriation of funds for the grant program; and,
- ◆ Create an accountability mechanism to link state performance and incentive grant awards.

NHTSA Actions Responding to OMB Recommendations:

To measure its efficiency, NHTSA began tracking the allocation of Section 402 formula grants within 45 days of enactment of appropriation. NHTSA's SAFETEA proposal to Congress also included a streamlined grants program to reduce complexity and increase focus on safety performance.

NHTSA also began the implementation of procedures to increase the review of state grant programs to insure greater accountability for use of grant funds to improve performance. NHTSA will perform a management review of every state every three years and will perform special management reviews when state performance in specific areas, such as impaired driving and occupant protection, is below national norms and is not improving.



MANAGEMENT CONTROLS, SYSTEMS AND COMPLIANCE WITH LAWS AND REGULATIONS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The objectives of Section 2 and Section 4 (internal controls and financial accounting systems respectively) of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 are in the process of being met by the HTF modes in FY 2004. All departmental organizations are subject to Sections 2 and 4 of the FMFIA.

For FY 2003, HTF had four material weaknesses. Two were related to Section 2 and two were associated with Section 4. The four material weaknesses that required corrective action by HTF agencies in FY 2004 were:

- ◆ The Department's information systems security
- ◆ The Department's intragovernmental account balances
- ◆ FTA controls over financial operations
- ◆ FHWA's controls over financial operations

During FY 2004, the material weakness for the Department's information systems security was changed to a reportable condition. With regard to the FHWA and FTA controls over financial operations material weaknesses, the agencies implemented a number of corrective actions, however, they were not in place for a sufficient period of time to ensure that weaknesses were resolved. For the FY 2004 financial statements, the following material weaknesses were identified. Two of these weaknesses are a continuation from FY 2003:

- ◆ The Department's intragovernmental account balances
- ◆ The Department's financial system security controls
- ◆ Financial management and reporting for Highway Trust Fund agencies
- ◆ Financial oversight of highway and transit grants

Identified below are the actions the modes have taken to correct the FY 2003 material weaknesses.

THE DEPARTMENT'S INFORMATION SYSTEMS SECURITY

FHWA

Consistent with the Departmental FY 2004 Security Goals, FHWA completed certification and accreditation (C&A) of 100% of its operational IT systems, continued to work on the reduction of security weaknesses, and reported its progress through the quarterly Plan of Action and Milestones Departmental update process. FHWA also implemented the Departmental Baseline Configuration standards for all new systems and implemented the



standards on all exiting systems to the extent possible. FHWA provided system administrator security training, which included a section on compliance with DOT baseline security configuration standards. FHWA also continued to operate its vulnerability scanning program, which requires that all remediation of vulnerabilities must be done before new servers are attached to the network. Finally, FHWA continued its security patching efforts and performed routine patch scans to ensure that patches are applied.

FMCSA

Consistent with OST's guidance, FMCSA developed IT security plans for all of its 19 systems and completed C&A for 100 percent of its systems by June 30, 2004.

FTA

FTA provided a business impact analysis for TEAM, Electronic Clearing House Operation (ECHO), and Datapoint On-Line Transaction System (DOTS) in October 2003. The TEAM C&A was completed in May 2004. Disaster recovery testing for TEAM, ECHO, and DOTS were completed in June 2004. Remaining risk assessments and security test and evaluations were completed in August 2004.

FTA revised policies and procedures that detail the development and construction of test plans, documentation of test results, delivery and implementation of software, and approval by management for all system and application software for DOTS and ECHO.

NHTSA

NHTSA met the requirements of the Federal Information Security Management Act by accomplishing 100 percent C&A of its IT systems and a reduction of high-risk vulnerabilities to zero in a timely fashion. NHTSA participated in the development of the Department's Enterprise "Target" architecture and modernization blueprint.

THE DEPARTMENT'S INTRAGOVERNMENTAL ACCOUNT BALANCES

FHWA

FHWA continued to identify and reconcile all trading partners, including fund balances with all entities. As part of its corrective actions, FHWA, with contractor assistance, began preparing a policy and supporting procedures to document the process for reimbursable agreements (RA) from cradle (preparing and obtaining approval) to grave (RA closeout) to ensure better accountability and reporting. This will also include approval of RAs, procedures for maintaining RA information and special coding practices to more easily identify RAs in the accounting system. These procedures will ensure more accurate reporting of eliminations on the HTF financial statement. FHWA anticipates completing this initiative in FY 2005.

FMCSA

FMCSA maintained a log of all reimbursable and interagency agreements and actively interacted with applicable trading partners to ensure accurate recording of these agreements. FMCSA began the process of developing and implementing an improved numbering mechanism to more easily identify agreements as either payables or receivables. In an effort to enhance reporting, FMCSA began drafting an Intragovernmental Policy memorandum for internal use.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FTA

FTA updated its records on RAs to ensure an accurate count of active agreements. FTA coordinated with other Department modes on this effort. Finally, FTA began putting in place new procedures on executing RAs. This effort will be completed during FY 2005.

NHTSA

NHTSA worked with FAA to identify and track its intragovernmental transactions and trading partners. NHTSA assigned one individual with responsibility to maintain detailed information for each RA, including quarterly reconciliations of RA activity to the financial information in the accounting system.

FTA CONTROLS OVER FINANCIAL OPERATIONS

The material weakness first reported in FY 2002 on FTA's controls over financial operations relating to the Anti-Deficiency Act violation has been resolved but not closed. FTA's management has requested funding from Congress in its FY 2005 budget submission to cover the overspending that occurred over a period of 20 years.

FHWA CONTROLS OVER FINANCIAL OPERATIONS

FHWA developed and implemented new accounting policies and procedures, including policies/procedures on financial statement preparation; journal voucher management; preparation of grant accruals; suspense processing; preparation of Accounts Payable and HTF estimates; and reconciliation procedures for grant transactions, fund balance with Treasury, and payroll. These policies and procedures have been instrumental in enhancing the quality and timely preparation of the FY 2004 financial statements. FHWA has identified a number of other policies and procedures that will be developed in FY 2005, e.g., RAs, Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, SF-133 (Standard Form) preparation and reconciliation, etc.

FHWA contracted out its reconciliation processes to a commercial accounting firm. This firm was required to catch up reconciliations from October 2003 to June 2004. This included monthly reconciliations of SF-224 transactions and Statement of Differences and cumulative grant transactions (obligations and expenditures) in the corporate accounting and grant systems on a daily and monthly basis. FHWA has continued these reconciliations through year's end. The June 30, 2004 financial statements were the first statements produced by FHWA that were reconciled. FHWA also completed the reconciliation of over 3,700 highway projects where balances between the accounting and grant systems did not agree.

In FY 2004, FHWA also implemented a number of system controls to improve financial accountability. FHWA began controlling annual funding allocations at the allotment level to eliminate overspending. FHWA also enhanced its grant system to not allow states to de-obligate more funds than were available for such purposes. FHWA implemented other policies and procedures to ensure that all payments made were done so with sufficient funds existing in the accounting system prior to payment.

Finally, FHWA researched and resolved approximately \$2.2 billion in transactions that were deposited into suspense accounts dating back to 1992.



HTF AGENCY IMPLEMENTATION OF FMFIA

As part of its FY 2003 report, the IG identified a lack of formal procedures in the agencies under the HTF to identify, assess, and monitor management controls.

FHWA

To strengthen the grants management program, FHWA developed a policy and supporting review program for the Division offices that includes toolkits for required reviews to ensure consistency of application across offices. The policy requires annual conduct of a risk assessment of state billing processes. Based on the risk assessment, the Division office is required to perform a process review of the highest rated area. Division offices must also perform periodic reviews of sample state billings to ensure proper documentation; conduct annual reviews of inactive project obligations with outstanding balances of over \$500,000; sample test administrative financial processes and controls (e.g., credit card purchases, convenience checks, travel vouchers, etc.); and timely follow up on all audit findings applicable to FHWA programs. As part of the annual Section 2/4 certification, each Division Administrator must identify all actions taken and the results of those actions to support his/her certification and assurance statement. FHWA intends to implement this policy in FY 2005.

FTA

FTA implemented new guidance to its offices on the requirements of FMFIA. The guidance included a management control plan and risk assessment needed to conduct reviews. Full implementation of the new policy and guidance will be in place during FY 2005.

FMCSA

FMCSA, with the support of an independent contractor, made progress in developing a FMFIA program for the Agency. The Agency formed a FMFIA Steering Committee; developed FMFIA program governance, a Management Control Plan, and an evaluation tool; and established a FMFIA review cycle. Currently, the Steering Committee is in the process of completing the FMFIA management control evaluations, which will be used to support the Administrator's annual statement of assurance for the FY 2004 financial statements. Once complete, personnel in each functional area of the Agency will be able to determine if the stated controls in the overall Management Control Plan are in place and functioning as intended.

NHTSA

NHTSA implemented a management control program that identifies and documents key management control areas, assesses and documents risk of key management control areas, prepares and updates management control plans based on risk assessments, and performs and documents periodic management control reviews throughout the year.



FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Department's FY 2001, 2002, and 2003 Consolidated Financial Statements received unqualified audit opinions from the Department's OIG. However, the OIG determined that the Department was not in full compliance with the Federal Financial Management Improvement Act (FFMIA) because material weaknesses existed for the Department's financial, accounting, and information security programs.

FFMIA builds on the foundation laid by the Chief Financial Officers (CFO) Act of 1990 by emphasizing the need for agencies to have financial management systems that can generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. Full compliance with FFMIA hinges on the continued success of implementing Delphi throughout the Department.

Identified below are the actions each mode has taken to correct the material weaknesses identified.

FHWA

FHWA developed and implemented new accounting policies and procedures on recording and reconciliation of financial transactions. FHWA also established reconciliation processes to ensure data in the grant system agreed with data in the financial management system. Finally, FHWA began work to develop procedures to identify and reconcile all intra- and interagency transactions to include specific coding to identify these transactions in the accounting system.

NHTSA

NHTSA implemented policies and procedures to perform monthly reconciliation of its significant accounts (funds balance with Treasury, accounts receivable, accounts payable, payroll, and grants system).

IMPROPER PAYMENTS INFORMATION ACT

In the first year of implementation of the Improper Payments Information Act (IPIA) of 2002, the Department conducted a review of the majority of its programs and activities to identify those that may be susceptible to significant improper payments. OMB has defined significant as 2.5% of payments or \$10 million. This improper payments risk assessment was conducted in two phases. For the first phase, the Department engaged KPMG, LLP to research and develop an improper payment risk assessment process and methodology. The Department identified four programs within HTF with the highest potential for improper payments based on the highest 2003 fiscal year expenditures, which comprised the majority of FY 2003 Department expenditures.

The following programs were identified as most susceptible to improper payments based on the Department's assessment of their full program inventory:



PROGRAMS MOST SUSCEPTIBLE TO IMPROPER PAYMENTS	
OPERATING ADMINISTRATION	PROGRAM
Federal Highway Administration	<ul style="list-style-type: none">• Federal Aid Highway Program – State Project• Federal Lands Highway Program – Contracts
Federal Transit Administration	<ul style="list-style-type: none">• Capital Investment Grants• Formula Grants

The Department used a statistical sample to evaluate payments made in these programs. KPMG did not find improper payments exceeding either 2.5% of program payments or \$10 million, which would require reporting under the IPIA on any of the above listed programs. However, KPMG's scope was limited in two ways. First, there was an inadvertent sample population reduction in the FHWA Federal Aid program based on the extract requirements provided by FHWA. DOT and KPMG will work to identify the missing population amounts and review the additional balance amounts.

The second limitation was due to limited grant data being available for grants processed electronically based on the requirements of the Federal Financial Assistance Management Improvement Act of 1999 (PL106-107). PL 106-107 streamlines the payment process for grants. As a result, documentation was not available to permit KPMG to test whether the payment was calculated correctly, whether discounts and credits were properly taken and if all costs were allowable. KPMG was able to test electronically processed grants for eligibility, award and payment approval, incurrence of cost during the funding period, payment within the award or other funding limitations and that payment was sent to the proper recipient. It should be noted that all Federal agencies that electronically process grant payments in compliance with PL 106-107 will encounter this same limitation.

To resolve the issue of limited data in support of grant payments made in compliance with PL 106-107, DOT has devised an innovative research and development (R&D) strategy. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to provide the information needed to determine if grant payments made in compliance with PL 106-107 meet the improper payment estimation and remediation requirements of the IPIA. This proposal has been presented to OMB, and with OMB's concurrence, DOT has executed a contract with a consultant to begin the process of this proof of concept effort.

SINGLE AUDIT ACT OF 1984

FHWA

In late FY 2004, FHWA developed a new policy and supporting procedures that require Division offices to timely check the Federal Clearinghouse Web site for audit reports, obtain report copies, and take action to resolve any audit recommendations for FHWA programs. This new policy will be implemented in FY 2005.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FTA

FTA notified its regional offices that all grantees with expenditures greater than \$500,000 must submit annual audit reports to the Federal Clearinghouse and FTA. FTA also implemented a new computerized tracking system to improve oversight of its grantees.

FMCSA

FMCSA sent personnel to training about the Single Audit requirements and worked with OST to implement its provisions.

NHTSA

NHTSA issued policies and procedures to its regional staffs on monitoring grantees to ensure Single Audit Act requirements are met. Regional staffs must check the Federal Clearinghouse Web site for audit reports, take action to resolve any audit recommendations for NHTSA grantees, and include submission of audit reports as part of periodic grantee management reviews.

ANTI-DEFICIENCY ACT

FHWA

FHWA implemented a number of system controls to improve financial accountability. In the corporate accounting system, beginning with FY 2004, FHWA began controlling annual funding allocations at the allotment level to eliminate overspending. FHWA also enhanced its grant system to not allow states to de-obligate more funds than are available for such purposes. Further, FHWA implemented other policies and procedures to ensure that all payments made were done so with sufficient funds existing in the accounting system before making any payments.

FTA

FTA reported a violation of the Anti-Deficiency Act, as required by Section 1351 of Title 31, United States Code, on June 18, 2003. FTA's violation of the Anti-Deficiency Act occurred prior to FY 1984 when FTA, formerly the Urban Mass Transit Administration, over obligated several appropriations. FTA determined that deficiencies existed in three accounts. The President's FY 2005 Budget includes a general provision to allow transfer of unobligated balances from current accounts to cover the over obligations. Congress has not yet appropriated the deficiency appropriation requested by FTA to resolve this matter.

FTA implemented procedures to prevent another over obligation of budget authority.



GOVERNMENT MANAGEMENT REFORM ACT

FHWA

FHWA, with contractor assistance, developed an implementation strategy for cost accounting that requires the use of three cost accounting methodologies to cover all agency funding/programs. That strategy was approved by senior FHWA management. FHWA also identified needed requirements and acquired the cost accounting software that will be used for its cost accounting program. Finally, FHWA completed the development of a High Level Design which includes identification of all products and services provided by the Agency and all supporting work activities conducted by employees in support of the products and services (labor distribution). This design will be piloted in early FY 2005 and then Agency-wide deployment will begin shortly thereafter.

FMCSA

FMCSA enhanced its MCA plan, which was developed the previous year for Agency-wide implementation. The plan included a method to measure cost by performance, measurable milestones, and firm target dates. FMCSA conducted an MCA survey that collected the financial and performance data for use by the MCSAP program managers as a means of evaluating the federal and state outlay trends, along with fatality rates versus outlay levels. Survey results have enabled FMCSA to construct an information management and analytical tool that will identify the cost of business processes. Data collected have provided FMCSA management with refined information to make more informed resource allocation decisions.

FTA

FTA continued activities on its revised MCA Action Plan (April 2004) and initiated a number of elements in the plan. FTA established a MCA project team that consists of individuals from the functional areas in FTA headquarters and regional offices affected by the MCA process, including those familiar with information systems, accounting, and operational (program) areas.

FTA is in the process of securing contractor support to implement full cost accounting, including labor distribution and program/project grant activities. This assistance will develop an implementation strategy that incorporates cost accounting activities for program and/or organizational units, including further refinement of data to be captured, implementing data capture methods, and producing reports for management use.

FTA plans to capture labor distribution and time and attendance associated with managing each of its programs and each of its goals using the Department's CASTLE timekeeping system.

As an interim approach, FTA is working on a labor distribution process based on estimates of time expended by project/task or functions by employees. This will include identifying a project and task structure, recording employee time expended, developing ratios of time expended by project/ task or function, and applying these ratios to model labor costs. This includes the integration of workforce studies already underway within FTA. FTA will pilot this interim approach in a regional office.

NHTSA

NHTSA is in the process of determining requirements to implement MCA for its operations and plans to begin implementing a cost accounting strategy in FY 2005.



FINANCIAL HIGHLIGHTS

The HTF's financial statements, which appear in the Financial Section of this Report, received for the second straight year an unqualified audit opinion issued by the independent accounting firm of Clifton Gunderson, LLP. Preparing these statements is part of the HTF's goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. Management of each modal administration is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from the accounting records of the Highway Trust Fund in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

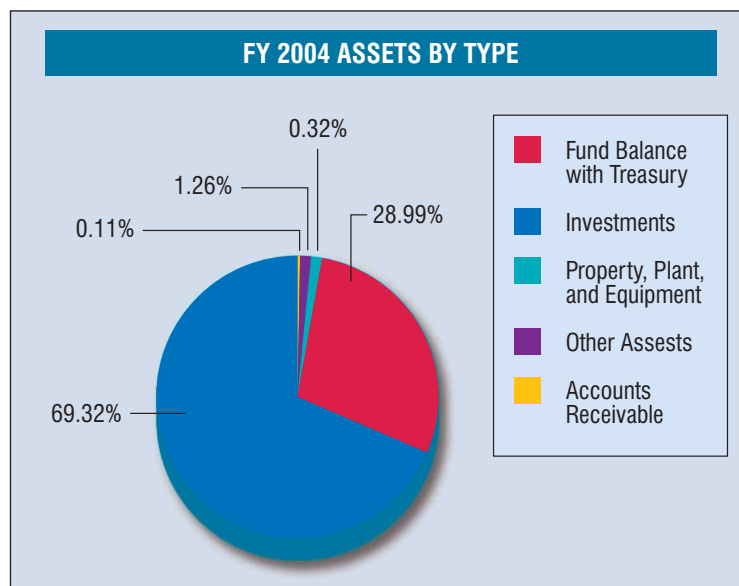
OVERVIEW OF FINANCIAL POSITION

Assets. The Consolidated Balance Sheet shows the HTF had total assets of \$14.7 billion at the end of FY 2004. This is a decrease of \$3.6 billion (19.7 %) from the previous year's total assets of \$18.3 billion. The decrease is primarily the result of decreases of \$3.7 billion in Investments and a \$0.1 billion increase in Fund Balances with Treasury.

The HTF's assets reflected in the Consolidated Balance Sheet are summarized in the following table (*dollars in thousands*):

	2004	2003
Investments	\$ 10,211,852	\$ 13,966,553
Fund Balance with Treasury	4,270,531	4,163,237
Accounts receivable, net	15,483	56,014
Property, plant and Equipment, net	47,021	46,856
Other Assets	186,272	117,513
Total Assets	\$ 14,731,159	\$18,350,173

Investments and Fund Balance with Treasury comprise 98% of total assets for FY's 2004 and 2003. Investments consist entirely of non-interest bearing U.S. government securities held in the HTF Corpus Account.



Liabilities. The HTF had liabilities of \$2.6 billion at the end of FY 2004, which is reported in the Consolidated Balance Sheet and summarized in the following table (*dollars in thousands*):

	2004	2003
Grant Liabilities	\$ 2,195,580	\$ 2,443,591
Accounts Payable	147,621	48,363
Other Liabilities	247,385	60,463
Total Liabilities	\$ 2,590,586	\$ 2,552,417

The grant liabilities represent an accrual for costs incurred by grantees that have not been reimbursed by the modal administrations.

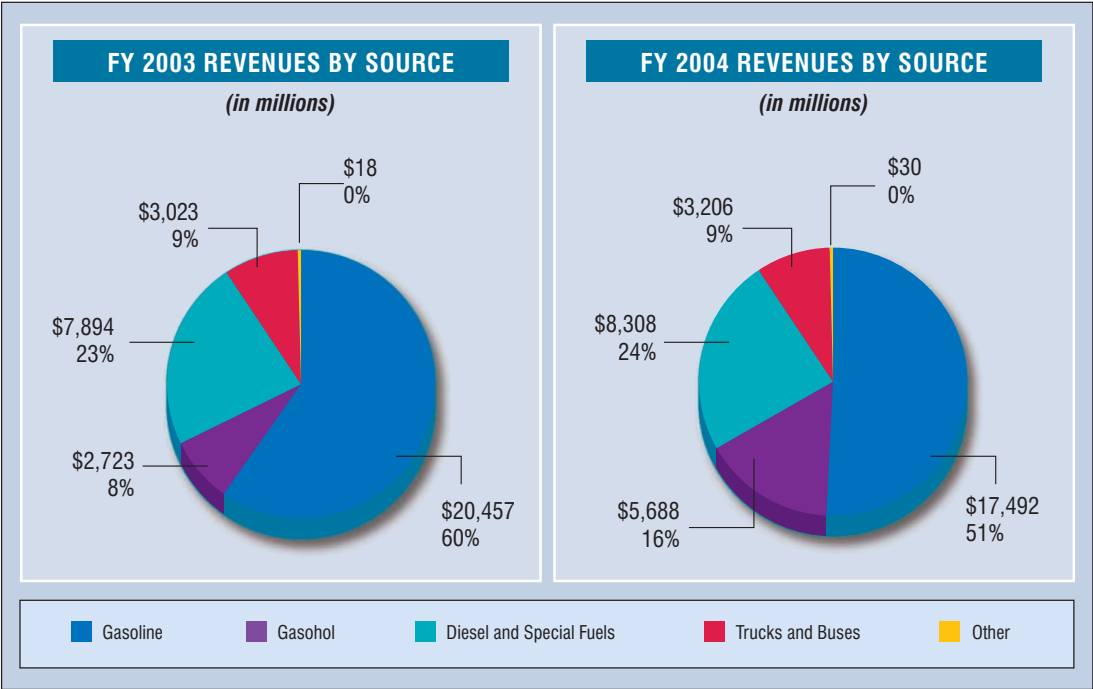
Ending Net Position. The HTF's Net Position at the end of FY 2004 on the Consolidated Balance Sheet and Consolidated Statement of Changes in Net Position was \$12.1 billion, a decrease of \$3.7 billion (23.4%) from the previous fiscal year. The lack of authorizing legislation combined with multiple extensions impacted the modes' ability to issue grants and carry out their functions.

Operating Issues in FY 2004. The revenue deposited into the HTF for FY 2004 was increased slightly as a result of legislation passed at the very end of the fiscal year that transferred additional fuel taxes (2.5 cents per gallon of gasohol) to the HTF that previously was deposited into the General Fund.



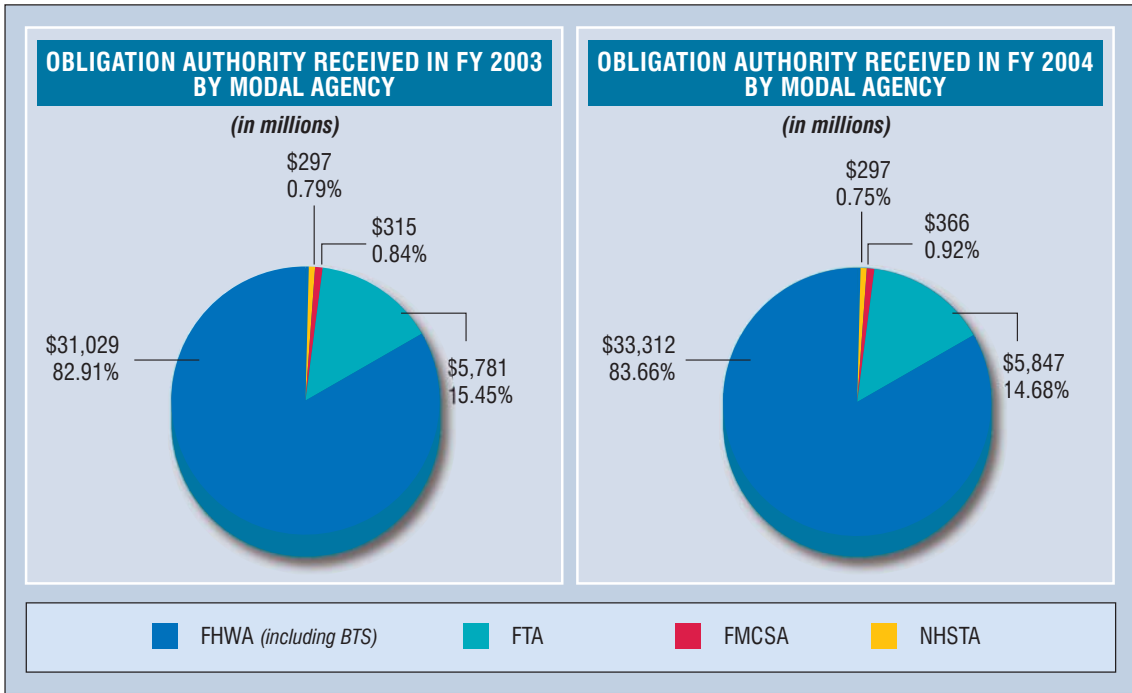
MANAGEMENT'S DISCUSSION AND ANALYSIS

The charts below show the amount and sources of revenues for FYs 2003 and 2004. Revenues increased from \$34.1 billion in FY 2003 to \$34.7 billion in FY 2004.



As noted on page 4, FRA did not receive any funds in FY 2004. As a result, the following charts do not include any amounts for FRA.

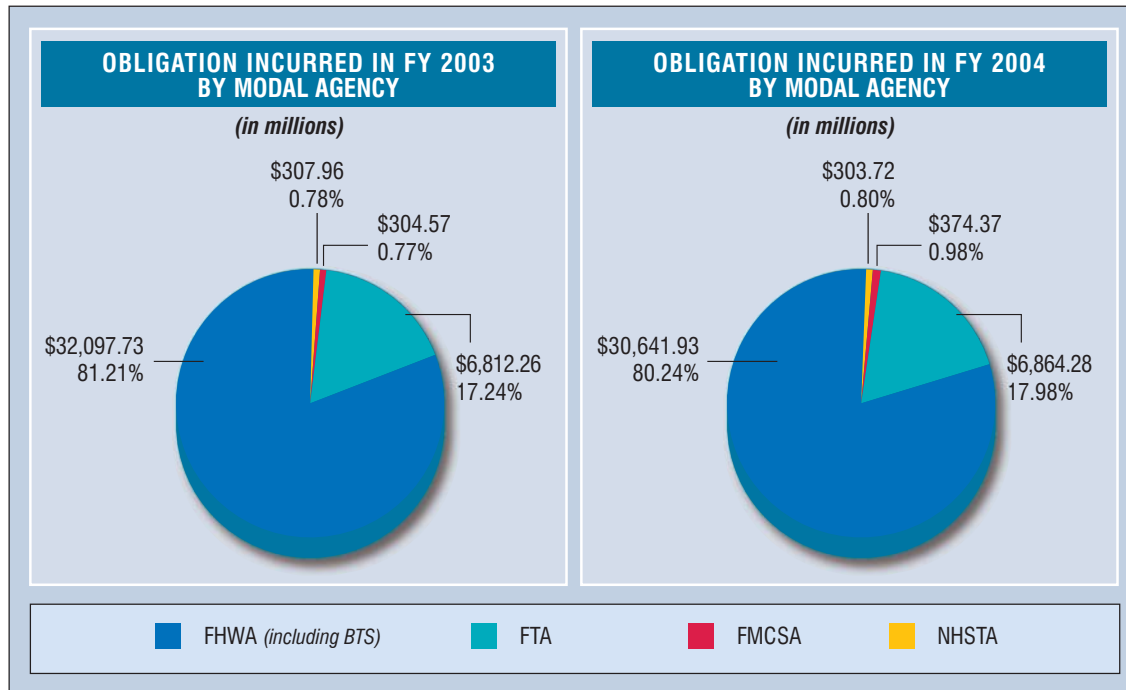
In FY 2004, there was a \$2.4 billion increase in obligation authority from FY 2003 (from \$37.4 billion to \$39.8 billion). The following charts show the authority received by mode.



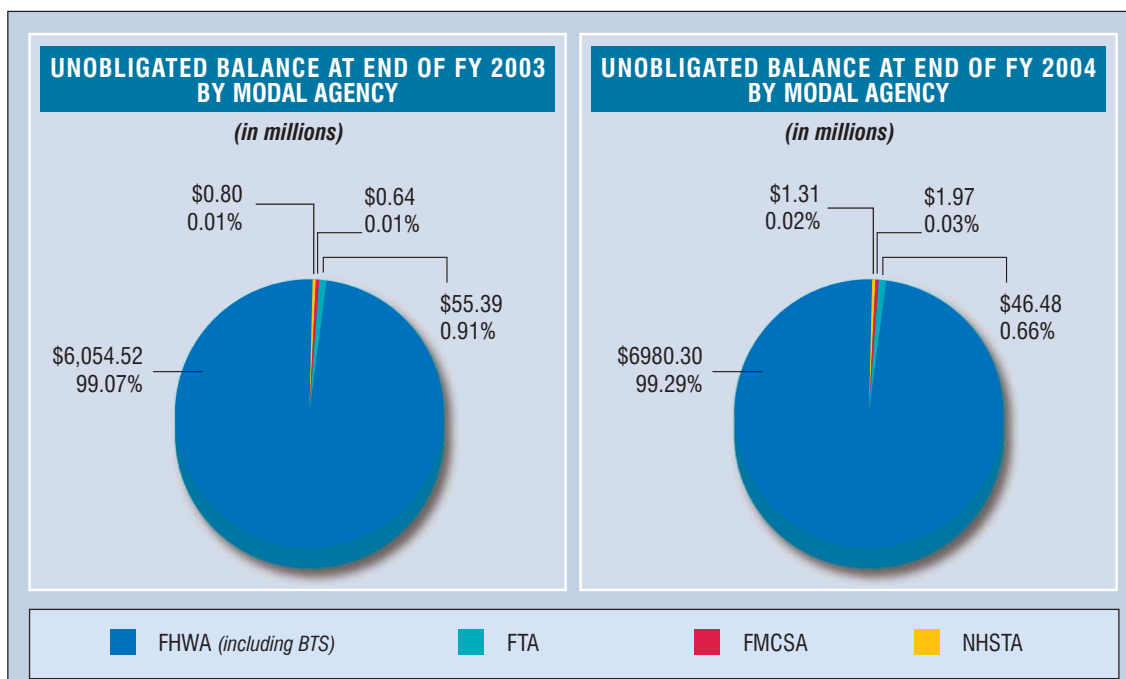


MANAGEMENT'S DISCUSSION AND ANALYSIS

In FY 2004, obligations incurred were \$38.2 billion, \$1.4 billion less than in FY 2003. The lack of authorizing legislation and the incremental funding that occurred in FY 2004 were the primary reasons for the decrease. The following charts show the obligations incurred by mode.



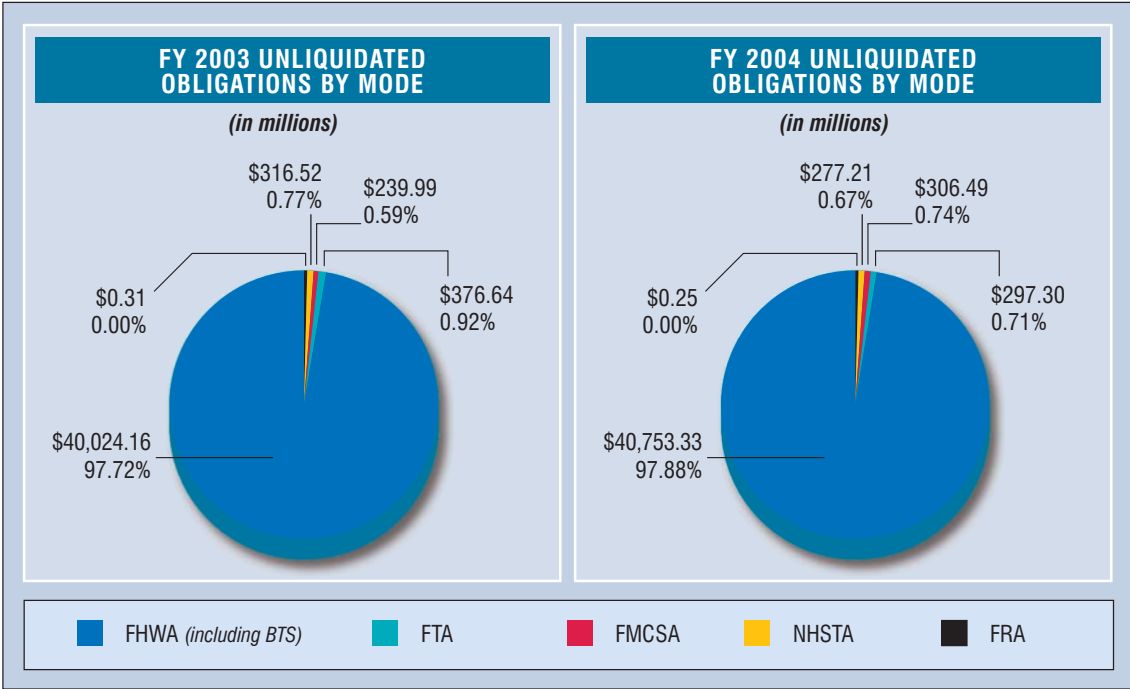
The amount available for obligation at yearend increased from \$6.1 billion in FY 2003 to \$7.0 billion in FY 2004. The following charts show the amounts available for obligation by mode for each year.





MANAGEMENT'S DISCUSSION AND ANALYSIS

The amount of unliquidated obligations at yearend increased from \$40.9 billion in FY 2003 to \$41.6 in FY 2004, an increase of \$700 million. This was caused in part by the late redistribution of obligation authority to the Department in the last month of FY 2004. The charts below show the unliquidated obligations by mode.



LIMITATION OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for the Highway Trust Fund pursuant to the requirements of Chapter 31 of the United States Code section 3515(b).

While these statements have been prepared from the books and records of the HTF in accordance with the formats prescribed in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to the enactment of appropriations.

Financial Section



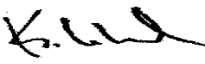


U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **ACTION:** Quality Control Review of
Audited Financial Statements for
FY 2004 and FY 2003, Highway Trust Fund
QC-2005-007

Date: November 12, 2004

From: Kenneth M. Mead 
Inspector General

Reply to
Attn. of: JA-20

To: The Secretary

The audit of the Highway Trust Fund (HTF) Financial Statements as of and for the years ended September 30, 2004, and September 30, 2003, was completed by Clifton Gunderson LLP, of Calverton, Maryland (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act; Government Auditing Standards; and the Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The Clifton Gunderson audit report concluded that the financial statements including the accompanying notes presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, HTF's assets, liabilities, and net position as of September 30, 2004 and September 30, 2003 and their related net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the years then ended. We concur with this unqualified or "clean" opinion.

HTF agencies,¹ and the Federal Highway Administration in particular, faced significant challenges this year. These agencies not only faced the accelerated OMB-mandated deadline of November 15, 2004, for audited financial statements, they also undertook an extensive effort to correct longstanding financial management weaknesses that Clifton Gunderson reported last year. HTF agency executives and financial managers and the Assistant Secretary for Budget and

¹ The Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and Bureau of Transportation Statistics.



Programs/Chief Financial Officer made a concerted effort to clean up bad data and institute more disciplined management practices. However, because of the severity of the problems that existed and the limited time available to design and implement corrective actions, FHWA was not able to make enough progress to correct the underlying process deficiencies. Continued executive-level attention, backed by skilled resources to implement disciplined processes, will be needed to correct the remaining deficiencies.

The report categorized problems into the following four material weaknesses, one reportable condition, and five instances of noncompliance with laws and regulations.

Material Weaknesses

1. Financial accounting processes do not fully support financial management or facilitate the timely preparation of accurate financial statements,
2. Reconciliation procedures,
3. Grants financial management oversight, and
4. Information technology control weaknesses.

Reportable Condition

1. Federal lands highway program transactions processing and reconciliations.

Noncompliance with Laws and Regulations

1. Single Audit Act of 1984,
2. Federal Managers' Financial Integrity Act of 1982,
3. Anti-Deficiency Act, as amended,
4. Government Performance and Results Act, and
5. Federal Financial Management Improvement Act of 1996

Clifton Gunderson made 24 recommendations for corrective actions. We agree with those recommendations. In a November 10, 2004 response to the draft report, the Assistant Secretary for Budget and Programs/Chief Financial Officer concurred with the weaknesses, generally agreed with the recommendations, and committed to submit a detailed action plan to the Office of Inspector General by December 15, 2004.

In our opinion, the audit work performed by Clifton Gunderson complied with applicable standards.



We appreciate the cooperation and assistance of the HTF agencies, the Office of Financial Management, and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, the Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment

#

cc: Federal Highway Administrator
National Highway Traffic Safety Administrator
Federal Transit Administrator
Federal Railroad Administrator
Federal Motor Carrier Safety Administrator
Director, Bureau of Transportation Statistics



**DEPARTMENT OF TRANSPORTATION,
HIGHWAY TRUST FUND**

**INDEPENDENT AUDITOR'S REPORT
September 30, 2004 and 2003**

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Independent Auditor's Report

- Opinion on Financial Statements
- Consideration of Internal Control
- Compliance with Laws and Regulations
- Systems Compliance With FFMIA Requirements
- Status of Prior Year's Reportable Conditions
- Consistency of Other Information
- Objectives, Scope and Methodology

Appendix A - Management Response to Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To the Inspector General of the Department of Transportation,
 Federal Highway Administrator,
 National Highway Traffic Safety Administrator,
 Federal Transit Administrator,
 Federal Railroad Administrator,
 Federal Motor Carrier Safety Administrator, and
 Director, Bureau of Transportation Statistics

In our audit of the financial statements of the Department of Transportation (DOT) Highway Trust Fund (HTF) for fiscal year (FY) 2004 we found:

- The HTF financial statements as of and for the year ended September 30, 2004 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Four material weaknesses in internal control and one additional reportable condition;
- Four instances of noncompliance with laws and regulations;
- HTF Agencies did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- HTF Agencies made some progress on certain internal control and laws and regulations findings identified in the FY 2003 audit reports; however, several conditions continue to exist and, accordingly, continued improvement is needed; and
- Based on limited procedures performed on the required supplementary information (including Management's Discussion and Analysis) and other accompanying information, we found no material inconsistencies with the financial statements or nonconformance with Office of Management and Budget (OMB) guidance.

The following sections discuss in more detail these conclusions and the scope of our audit.

OPINION ON FINANCIAL STATEMENTS

The HTF financial statements comprise the Highway Corpus Trust Fund, held by the Department of Treasury Bureau of Public Debt, and certain accounts of the following Operating Administrations (Agency) of DOT: Federal Highway Administration (FHWA), National Highway Traffic Safety Administration (NHTSA), Federal Transit Administration (FTA), Federal Railroad Administration (FRA), and Federal Motor Carrier Safety Administration (FMCSA), and the Bureau of Transportation Statistics (BTS).



The financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, HTF's assets, liabilities, and net position as of September 30, 2004 and 2003; and their related net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the years then ended.

As discussed in Note 1, *Summary of Significant Accounting Policies*, and Note 11, *Excise Taxes and Associated Revenue*, the accompanying financial statements reflect actual excise tax collections/revenue through March 31, 2004 and excise tax collections/revenue estimated by the Department of Treasury's Office of Tax Analysis for the two quarters ended June 30, 2004 and September 30, 2004.

As discussed in Note 14 to the financial statements, certain errors resulting in an overstatement of previously reported *Unobligated Balance – Beginning of Period* and *Unobligated Balance Not Available*, and an understatement of previously reported *Appropriation Received* as of September 30, 2003, were discovered by management of DOT during the current year. Adjustments to correct these errors resulted in a net reduction of *Total Budgetary Resources* at September 30, 2003.

CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered the internal control over financial reporting and compliance at the Agencies comprising HTF. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance.

The objectives of an effective internal control system are the following:

- *Financial Reporting:* Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- *Compliance With Laws and Regulations:* Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government-wide policies identified by OMB audit guidance.
- *Reliability of Performance Reporting:* Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or



operation of the internal control that, in our judgment, could adversely affect HTF Agencies' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their duties. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

The following sections detail the continuing weaknesses noted during the audit involving the internal control and its operation that we consider to be reportable conditions or material weaknesses. Such matters are summarized as follows:

Material Weaknesses

- Financial Accounting Processes Do Not Fully Support Financial Management or Facilitate The Timely Preparation of Accurate Financial Statements;
- Reconciliation Procedures;
- Grants Financial Management Oversight; and
- Information Technology Control Weaknesses.

Other Reportable Condition

- Federal Lands Highway Program Transaction Processing and Reconciliations.

MATERIAL WEAKNESSES

Background

As noted on page 1 of this report, the HTF financial statements are comprised of certain accounts of several operating divisions of the U.S. Department of Transportation (DOT). The Federal Highway Administration (FHWA) comprises over ninety-five percent of the costs reflected in the HTF financial statements. In addition to its own responsibilities for financial statement preparation and analysis, FHWA is also responsible for preparing the consolidated financial statements of HTF. The overall accounting system, Delphi, is maintained and operated by another DOT operating administration not included in the HTF financial statements. Even though the examples given in this report mostly relate to FHWA, many of the issues affect the other HTF Agencies as well.

Our report on the audit of the financial statements of HTF for FY 2003, dated January 13, 2004, noted material deficiencies in basic internal control policies and procedures. These deficiencies, along with the difficulties management experienced converting to a new accounting system for its largest Agency (FHWA) in FY 2003, resulted in significant delays in producing accurate financial statements at September 30, 2003. Accordingly, the audit of the financial statements of HTF for FY 2003 was not completed until late January 2004. Our FY 2003 report noted



Material Weaknesses in Financial Statement Preparation and Analysis, Reconciliation Procedures, Conversion To New Accounting System, and Computer Security.

After the FY 2003 audit was complete, management immediately began implementing changes in accounting policies and procedures to correct these weaknesses going forward. Management also needed to “cleanup” the errors that occurred during the first several months of FY 2004 while most accounting resources were focused on completing the FY 2003 audit. The difficulty of completing this task was compounded by the mandate from OMB to complete the FY 2004 audit by November 15, 2004, only nine months after the FY 2003 audit was completed. Management allocated resources (internally and through use of contractors) to address these issues and implement appropriate changes in its accounting policies and procedures. Such policies and procedures needed to be designed and implemented to ensure that current transactions were accounted for properly.

The changes management implemented assisted them in correcting some of the deficiencies reported in prior years. These changes allowed them to prepare financial statements more timely than during the FY 2003 audit. Some of the more significant improvements are described below:

- Reconciling key accounts monthly, specifically FBWT, Grants and Reimbursable Agreements. However reconciling items were not resolved in a timely manner;
- Performing accounting analysis as part of the monthly financial statements preparation process;
- Promptly clearing activity in suspense accounts, including old outstanding items;
- Automating certain aspects of the financial statement preparation process that reduced the extent of manual processes used in prior years; and
- Recruiting more qualified/experienced personnel to perform a variety of accounting functions.

However, due to the time restrictions and magnitude of changes needed, the improvements were not adequate to correct the internal control problems existing at September 30, 2003. As a result, even though management was able to prepare the HTF financial statements at September 30, 2004 much earlier than in prior years, significant errors and omissions were noted and not resolved until several weeks after the financial statements were provided for audit. The resolution of many of these discrepancies resulted in material adjustments to amounts reflected in the HTF financial statements and note disclosures.

As noted in Appendix A, *Management Response to Auditor’s Report*, DOT Agencies plan to continue implementing improvements in their systems and processes during FY 2005.



1. Financial Accounting Processes Do Not Fully Support Financial Management or Facilitate The Timely Preparation of Accurate Financial Statements

Condition: In our FY 2003 report, we noted the following specific deficiencies in “Financial Statement Preparation and Analysis:”

- a) Financial Statements Preparation Process is Manually Intensive
- b) Accounting Records Were Not Corrected Until the End of the Year
- c) Material Adjustments Were Required To The Statements of Budgetary Resources (SBR)
- d) Lack of Understanding and Analysis By Agencies of Amounts Reflected in Their Financial Statements
- e) Financial Statements Were Not Initially Prepared in Accordance with OMB Bulletin No. 01-09
- f) System is Not in Place to Properly Track Intragovernmental Transactions

Some procedural improvements have been made (i.e. monthly reconciliations and financial analysis procedures) to address the several recommendations detailed in our FY 2003 report. However, the improvements have not been sufficient, or in certain cases in effect long enough, to overcome the problems that existed nine months ago to meet the accelerated reporting deadlines imposed by OMB. Extraordinary efforts to “cleanup” the accounting records for the audit of the financial statements were needed at September 30, 2004.

The rest of this section of the report, provides a status of the specific deficiencies noted in our prior year report along with examples of the effect that continued internal control deficiencies has had on the financial statements provided for audit at September 30, 2004. The accounting and reporting concepts of all the matters identified in our FY 2003 report continue to contribute to a material weakness in financial reporting in FY 2004.

a) Financial Statements Preparation Process Is Manually Intensive

For the first three quarters of FY 2004, the same process was used by management to produce its financial statements. A new financial statement preparation process was used at September 30, 2004 that better integrates the data from Delphi into the financial statements. However this new process is not yet capable of producing the Statement of Budgetary Resources or the Statement of Financing. These statements were still prepared manually from reports generated by Delphi.

b) Accounting Records Were Not Corrected Until The End Of The Year

This situation continued to be a major problem in FY 2004. By the time the FY 2003 audit was complete, and management’s attention could be redirected to correcting the deficiencies noted during the audit, four months had passed. During that time,



transactions continued to be processed in error and differences between subsidiary records and data in Delphi were not investigated.

This situation continued for several more months as management attempted to implement new procedures to prevent transactions from being entered initially into the system in error. Due to the lack of reliability of the data in Delphi, and FHWA not being caught up with account reconciliations, the consolidated financial statements of HTF at March 31, 2004 were deemed unreliable.

Management was able to produce consolidated financial statements at June 30, 2004; however, it was only after extensive adjustments were made to the accounting records throughout the first three quarters of FY 2004. The absolute value (sum of debits) of these adjustments was approximately \$135 billion through June 30, 2004.

Prior to preparing the consolidated financial statements at September 30, 2004, an additional \$195 billion was needed in the last quarter to further adjust amounts reflected in the general ledger. This brought the total adjustments for the year up to \$330 billion. The volume and amount of these adjustments suggest that the system is not working properly to accurately capture all transactions.

Even though some of these adjustments are considered “normal cleanup” entries, many were a result of manually intensive analysis and reconciliation procedures needed to correct longstanding problems identified in the FY 2003 that carried over into FY 2004. We commend management for its efforts in identifying these errors in its general ledger; however, the volume and type of adjustments made were excessive. This situation indicates that significant manual effort was needed to “get the numbers” right before the data was good enough to conclude that there is relatively low risk that further misstatements would be material in relation to the financial statements being submitted for audit. The time required to do all of this “cleanup” delayed management in getting its financial statements ready for audit. It also hindered management in adequately reviewing the results reflected in such statements in a timely manner.

HTF Agencies continued to have significant difficulty in providing complete and accurate documentation to support certain transactions processed by its accounting system in a timely manner (i.e. a time frame conducive to meeting the new OMB reporting directives). In addition, HTF Agencies were, at times, unable to provide adequate explanations for certain amounts reported in their financial statements (both at June 30 and September 30) in a timely manner.

c) Material Adjustments Were Required To The Statements Of Budgetary Resources (SBR)

In FY 2003 material adjustments were made to the FY 2003 SBR. The specific error identified in our FY 2003 audit did not occur in FY 2004. However, a different type of error was noted in the SBR at September 30, 2004 relating to a misinterpretation by management of information being reported by the Bureau of Public Debt (BPD)



involving un-invested tax collection/receipts unavailable for obligation. The error resulted in both the “Total Budgetary Resources” and the “Total Status of Budgetary Resources” being reduced by \$16 billion for the year ended September 30, 2004.

In addition, four weeks after the end of the year, FHWA adjusted a variety of budgetary account balances at September 30, 2004. The adjustments had an absolute value of \$10 billion.

d) Lack Of Understanding and Analysis By Agencies of Amounts Reflected In Their Financial Statements Could Result In Errors In Financial Statements

During the FY 2003 audit we noted that management did little financial analysis of the amounts reflected in its financial statements, and there was limited oversight by DOT management of the financial statements prepared by the individual agencies.

Prior to the commencement of the FY 2004 audit, Agency management did not have a system in place to adequately analyze its financial statements at the quarter end or at year-end. We provided management with potential formats, along with evaluation criteria, to consider in performing their research/analysis. In certain cases, the initial analyses performed at June 30 and again at September 30 by management were inaccurate. Based on the extent of errors noted in the financials statements provided for audit, it appeared that the financial statements were not reviewed thoroughly by someone other than the preparer.

After several attempts, FHWA was unable to produce a reasonable analysis of its program costs for the year ended September 30, 2004. One of FHWA’s attempts at explaining fluctuations in its Net Cost note disclosure resulted in a conclusion that costs needed to be increased by over \$2 billion. This conclusion was erroneous and indicated a lack of understanding of basic accounting principles. In another attempt, FHWA proposed to change individual program line items aggregating to an absolute value of \$8 billion. After further review, management later concluded that total costs were accurate as originally stated. However, FHWA management still changed individual program lines, and such changes had an absolute value of \$5 billion compared to that originally reflected in its financial statements.

e) Financial Statements Were Not Initially Prepared In Accordance With OMB Bulletin No. 01-09

Improvement was noted since last year’s audit. However, the review of HTF and related Agencies’ stand-alone financial statements and fluctuation analyses did not appear to be effective in ensuring the accuracy of amounts reflected in the financial statements and related note disclosures. As a result of the audit of the consolidated financial statements of HTF at September 30, 2004, several corrections were needed. Some of the more significant corrections are noted below:



- Four weeks after the end of the year, FHWA proposed over 40 adjustments to its financial statements adjusting a variety of accounts as follows:
 - entries to increase in costs by approximately \$760 million;
 - adjustments for recipient allocation related accounts. The absolute value of the adjustments was approximately \$3 billion. Such adjustments were necessary because FHWA did not periodically reconcile recipient accounts during the year and at year-end, prior to preparing the financial statements. In addition, several entries were recorded in error because of a lack of understanding of parent/recipient accounting, and the absence of a reconciliation of the non-expenditure transfers that took place during FY04. After obtaining the account balances from the recipient entities, FHWA did not perform an analysis to ensure that amounts reported by the recipients were correct, and that amounts included in its financial statements were reasonable;
 - adjustment to reduce intragovernmental Accounts Payable by over \$500 million; and
 - adjustment to Transfers in the Statement of Net Position by \$ 2.1 billion.
- Appropriate estimates of amounts that would be reported by third parties (i.e. BPD) to FHWA after the end of the year were not reflected in the financial statements. For example, Fund Balance With Treasury was increased by \$2.3 billion relating to the two-week time lag for BPD to process the excise tax collections and allocations for the general fund.
- A \$1 billion adjustment was needed relating to a transfer made to the HTF because of the passage of a new law effective for FY 04. This matter was communicated to FHWA by BPD on October 3, 2004, prior to the submission of its financial statements for audit.
- Certain other information in the financial statements provided was incomplete or clearly inaccurate (i.e. note disclosure information, required supplementary information, and other accompanying information) in the financial statements provided for audit.
- The Department of Treasury (Treasury) provides DOT with an estimate of tax collections for each quarter. Such estimate is recorded in the general ledger; however, such estimate is adjusted when actual receipts data is reported by Treasury (six months later). During FY 2004, the Treasury estimates were overstated by approximately \$1 billion through June 30, 2004. This situation raised a concern that the estimate provided for the quarter ended September 30, 2004 may also be overstated. FHWA Management did not attempt to quantify this potential error to determine the need for an adjustment to their financial statements.
- Since HTF Agencies did not have a cost accounting system in place to properly allocate costs to their programs, management was unable to produce a Statement of Net Cost in compliance with OMB requirements. OMB Bulletin No. 01-09 requires the reporting entity to report the full cost of each program output, which should consist of both direct and indirect costs, including the cost of identifiable supporting services. Management did not adequately identify programs for



disclosure in its financial statements. The line items detailed in Note 10 (“Net Program Cost”) to the financial statements were not consistent with OMB’s definition of a program, “a specific activity or project as listed in the program and financing schedules of the annual budget of the U.S. Government.” In addition, without a cost accounting system, HTF Agencies do not appear to have sufficient information to identify and eliminate wasteful spending, hold or reduce operating costs, or better evaluate the effectiveness of programs.

f) System Is Not In Place To Properly Track Intragovernmental Transactions

Management has made some progress in this area, but more is needed. Agencies are responsible for accumulating intra-DOT, intra-HTF and intergovernmental activity during the year and providing such trading partner information to DOT and to Treasury (which is responsible for government-wide financial statements). Reconciliations for eliminations were not performed consistently by all Agencies throughout FY 2004. The Agencies were unable to confirm the accuracy of the information disclosed in the “Trading Partner” schedule included with the HTF financial statements. After several attempts, the HTF Trading Partner schedule was finalized four weeks after the end of the year. Significant changes were made to amounts initially provided for audit.

- g) Other Matters – Facts II Preparation Process Needs To Be Linked To Financial Statement Preparation Process*** - The U.S. Treasury requires that cash and budgetary information be reported via the FACTS II system on a quarterly basis. The report should be prepared using the same trial balance data that is used in preparing the basic financial statements. In reviewing amounts reflected in certain Agencies’ (FHWA, FMCSA, FTA and NHTSA) fiscal 2004 FACTS II transmission, we noted differences with amounts reflected in its September 30, 2004 trial balance of accounts (used to prepare its financial statements). Such differences related to FBWT and certain budgetary accounts on the FACTS II submission, with an aggregate absolute value of approximately \$50 billion (net of \$276 million). HTF Agencies do not have a process in place to ensure the erroneous accounts were reviewed and corrected prior to the financial statements being prepared.

Condition Summary: The level of effort and the amount of manual intervention needed by management to “get the numbers right” has been extraordinary again this year. We applaud management’s effort in its attempts to achieve an unqualified opinion. However, the level of manual intervention needed to “cleanup” their accounting records and “get the numbers right” inherently confirms that the Material Weakness criteria, “...the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur”, is met in this circumstance. In addition, the level of effort noted above also inherently confirms that the efforts by DOT employees and contractors are not considered to be in “the normal course of performing their duties.”

The basic systems (both electronic and user based) currently in place are not adequate to effectively produce reliable financial statements in a timely manner. Timely is defined by the need to submit reliable quarterly financial statements to OMB within 45 days after quarter



end, and for DOT to be able to obtain an audit of its financial statements by November 15th without expending extraordinary efforts to “cleanup” the data used in preparing and auditing such financial statements.

Given the volume of adjustments made to the basic accounting records during the year and during the audit at September 30, 2004, the accuracy of financial statements submitted to OMB during the year is uncertain. The situation noted during the FY 2004 audit clearly indicates that the current internal control structure does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. Currently it appears that extraordinary efforts are needed to compensate for these weaknesses.

Finally, we noted that management relied too heavily on certain amounts provided to them by third parties (i.e. BPD, OPM, etc.) and accepted the amounts from these third parties without questioning the impact such amounts had on its financial statements. Management is responsible for the fair presentation of the amounts reported in its financial statements. Regardless of the source of the data used by management to prepare its financial statements, it is ultimately the responsibility of management to identify and correct errors.

Recommendations: Accounting and financial reporting practices of all agencies must be improved to assist DOT in complying with the OMB reporting requirements for FY 2005 and beyond. We hereby provide the following recommendations for HTF Agencies and DOT management:

- a) The remaining manual aspects of the financial statement preparation process (i.e. Statement of Budgetary Resources or Statement of Financing) should be automated. The adequacy of the resources assigned to the financial statement preparation and analysis process should be evaluated. All financial statement preparation processes should be consolidated within one accounting department at DOT, relieving the Agencies of the physical preparation process, and focusing their efforts on financial statement analysis. Personnel responsible for the preparation and analysis of the financial statements should be adequately trained in basic accounting principles and federal financial reporting requirements.
- b) The reasons for the manual “cleanup” needed to the accounting records for FY 2004 transactions reflected in Delphi should be evaluated. DOT management must determine if systemic processing and report generation problems are preventing the Agencies from utilizing Delphi to its fullest capability. Policies and procedures should be developed, in coordination with DOT management, to ensure that the Delphi system is used correctly so that data is posted accurately at the initiation of a transaction. Reassess controls over the processing of transactions to ensure that only valid transactions are recorded in the general ledger accounts.
- c) Additional training should be provided for all Agency personnel involved in processing accounting transactions in Delphi, as well as in accessing reports relevant



to their evaluation of the reasonableness of amounts reflected in the financial statements.

- d) Management must critically review all amounts reflected in the HTF financial statements, including those provided by third parties. They must develop methodologies to determine the reasonableness of such third party amounts, and estimate balances that third parties cannot provide prior to the preparation of the HTF financial statements, as necessary.
- e) Financial analysis techniques must be refined to ensure comparison from month to month and year-to-year for the actual amounts. A comparison of actual and budgeted amounts, and actual and management expectations, should also be performed. This should help management identify and follow up on anomalies and emerging trends in reported balances. Some of the analysis (i.e. Statement of Net Cost by Program) should be performed in conjunction with the Division/Regional offices' input. In such cases, information should be available at the Division/Regional level to facilitate the field offices' analyses.
- f) Consistent methods should be established to accumulate "Trading Partner" information for inclusion in the financial statements. Procedures should be developed to properly classify transactions as Governmental or Non-governmental when they are initially recorded in the accounting system. These new methods could avoid the time consuming task of making manual adjustments during the financial statement preparation process.
- g) Policies and procedures should be established to fully and consistently implement Managerial Cost Accounting in accordance with the Statement on Federal Financial Accounting Standards No. 4. The results of such policies and procedures will assist management in complying with the requirements of the Presidential Management Agenda relating to linking allocated resources used by program objectives to actual program results.

2. Reconciliation Procedures

Condition: In our FY 2003 report we noted that reconciliations had not been performed during the year, and when reconciliations were ultimately completed at September 30, 2003 they still contained significant differences that resulted in adjustments. It was also noted that Fund Balance With Treasury (FBWT) and Grants reconciliations were particularly troublesome.

Substantial improvements were made in this area, and many reconciliations were being done in FY 2004. Reconciling items were being researched, and the general ledger accounts were not being arbitrarily adjusted. However, we noted that account reconciliations were not performed consistently during the year, and research and resolution of the differences were not performed timely. Accordingly, such improvements have not been sufficient to



overcome the problems that existed for a number of years and were reported in the FY 2003 audit report issued nine months ago.

Even though most accounts were ultimately reconciled and the general ledger adjusted as of September 30, 2004, many were completed several months after the month-end. Even when the reconciliations were complete, the process used to determine the cause of the differences was not always adequately documented. In addition, research and resolution of the differences was not performed timely to ensure the correct data was included in Delphi's general ledger. FBWT and Grants accounts were particularly troublesome and, accordingly, further details are provided below:

a) FBWT Reconciliations - We noted the following deficiencies:

- Child allocation accounts were erroneously excluded from the general ledger during FY 2004 and were not properly identified as reconciling items. Adjustments with an absolute value of \$1.1 billion were needed to correct this problem.
- Agencies are not promptly reconciling unmatched transactions identified on the Treasury Statement of Differences for deposits and disbursements. At September 30, the absolute value of deposit and disbursement differences was \$186 million. Of that amount, nearly \$60 million had been outstanding for more than 90 days.
- Payroll differences (\$ 32 million) between the general ledger and the amount paid by Treasury were not adjusted in the general ledger in a timely manner. Some differences have remained for over nine months.
- Erroneous adjustments (\$ 58 million) were made to FBWT in an attempt to reclassify adverse balances without adequate research.
- Non-224 entries were used in error.
- SF 224 data was not properly reviewed prior to its submission to Treasury.
- A Supplemental 224 submitted to Treasury was not recorded in the general ledger.

b) Grant Reconciliations - Although daily and monthly reconciliations were prepared, we continued to note material differences between the subsidiary ledger and amounts reported in Delphi at month end throughout the year. Many of the differences related to periods prior to the system conversion in FY 2003. Due to the lack of reconciliation in past years, FHWA is having difficulty in clearing up these differences.

Grant account reconciliations at September 30, 2004 still contained significant differences that resulted in material adjustments. These adjustments could only be done at the summary level since the details for certain of these transactions were not available. The differences noted at September 30, 2004 were most significant at FHWA, and are summarized as follows:



OA	ABS * (Net) Difference FMIS and PO Module	ABS* (Net) Difference FMIS and GL Module	ABS * (Net) Difference PO and GL
FHWA	\$ 675 million (\$181 million)	\$ 1.3 billion (\$237 million)	\$ 679 million (\$56 million)

* Absolute value represents the sum of all differences between the amount in the general ledger and that reflected in the subsidiary ledger.

Even though the differences were not as significant as those noted at FHWA, FTA and other Highway Trust Agencies also had differences between its subsidiary ledgers and amounts reported in Delphi.

- c) **Accounting For Federal Lands Transactions and Related Reconciliations** – FHWA has a program titled Federal Lands Highway Program (Fed Lands) whose mission is to plan design, construct and rehabilitate roads and bridges providing access to, through and within Federal and Indian lands. FY 2004 funding for Fed Lands was approximately \$700 million.

FHWA management has not reconciled assets, liabilities, obligations, expenditures and available funds at the project level throughout the year or at year-end. Based on our testing of transactions during the year, we noted significant differences between amounts supported by source documentation and that reflected in Delphi. Since reconciliations between the data in the project module and Delphi had not been performed, management was unable to readily determine the reason for differences. In response to these results, management performed extensive research to determine that the amount in Delphi at September 30, 2004 was reasonably stated in total. The research included an analysis of funds activity during the year, sample validation of project amounts reported in Delphi, fluctuation analysis of program cost, and analysis of the accrual for Federal Lands at September 30, 2004.

- d) **Suspense Account** – Suspense accounts are routinely used to record transactions for which the proper accounting was not readily determinable. Many transactions in these accounts remained unresolved for several months, and in certain cases over several years. Consequently, suspense account balances were not adequately cleared out and recorded in the proper accounts on a timely basis throughout the year.

Even though the net balances in the suspense accounts were not material, the absolute value of the composition (i.e. debits and credits) of the net balances was significant. Only after extensive research was it determined that the items in the suspense account did not have a material impact on the financial statements at June 30 or September 30. At September 30, 2004, the absolute value (ABS) of balances in suspense accounts of HTF agencies was \$2.8 billion (\$647 million after elimination offsets).

In addition, there was improper reporting of suspense accounts in several financial statement line items by FHWA, and improper classification of transactions between HTF and non-HTF accounts by NHTSA.



e) **Subsidiary Reports** - Certain financial statement line items lacked subsidiary reports to facilitate management's performance of monthly reconciliations throughout the year and at September 30, as follows:

- Federal Lands open projects obligations and disbursements;
- Federal Lands advances to and from other agencies;
- Eliminations trading partner reports at the trading partner and agreement level;
- Allotment status report for all active allotments; and
- Suspense Account Aging Report.

Even though a suspense aging report was available, it included historic activities that were not relevant to current outstanding items. This made reconciliation of the suspense accounts cumbersome and needlessly time consuming. While this was noted during the interim phase of the audit, the historic items were not purged prior to year-end, again making the reconciliation process cumbersome and needlessly time consuming.

Due to continued reconciliation problems noted during the FY 2004 audit, we believe that the implementation of new reconciliation procedures has not been as effective as necessary to support the preparation of accurate financial statements in a time frame conducive to meeting the accelerated reporting deadlines.

Recommendations:

- 1) Implement procedures to ensure periodic reconciliations for all major financial balances and maintain supporting documentation for reconciling items that explain management's understanding of the composition and fluctuation of the accounts. Refine the financial management process by routinely reviewing the Agency's subsidiary accounts to ensure that subsidiary details and the general ledger are analyzed as an ongoing part of financial management. Differences identified should be researched and resolved in a timely manner. More specifically we recommend that management implement the following actions:
 - a) Continue to implement policies and procedures included in the Treasury Financial Manual (TFM) and those recommended by GAO relating to FBWT, including Suspense Accounts. Such procedures should include the complete and timely reconciliations of FBWT on a monthly basis, resolving differences between the Agency FBWT balances with those reported by the Treasury in a timely manner, and making adjustments to the general ledger balance after thorough research has been performed and supporting documentation is reviewed by supervisory personnel. Additional discipline, oversight and coordination are needed between the Agency and DOT's Cash Operation division in Oklahoma City in posting transactions during the year and reconciling accounts at month and year-end.
 - b) Resolve grant related differences identified in the reconciliation process that relate to prior years.



- c) Use the suspense account sparingly, and clear out transactions within thirty days of entry into the account. Suspense account activity should be monitored throughout the year including maintaining records of resolved items and aging of outstanding amounts reflected in the account. In addition, in accordance with the SGL, suspense amounts should only be reported in SGL account numbers 1010 and 2400.
- 2) In coordination with DOT management, relevant Agencies must develop accurate subsidiary detail of the account balances for Federal Lands Highway Program, allotment status, and eliminations at the transaction/project level to facilitate their reconciliation to the general ledger.
- 3) Develop written procedures for Federal Lands to assist staff in preparing reconciliations, including the review of such reconciliations by someone in authority. A complete reconciliation to the source documentation should be performed for all open projects to ensure the accuracy and reliability of the data in Delphi. Policies should be established indicating individuals authorized to make adjustments to the general ledger as a result of the reconciliation and to communicate such adjustments to appropriate individuals (i.e., those involved in the reconciliation process.)

3. Grants Financial Management Oversight

Condition: In our prior internal control audit report, we noted FHWA's deficiency in the financial management oversight on highway projects. FHWA disbursed approximately \$30 billion to grantees and others in FY 2004. However, FHWA has not implemented new procedures to improve controls currently in place to ensure that such funds are safeguarded against fraud, waste and abuse. New matters have come to our attention that increases the risk of improper payments and, accordingly, this matter has been elevated to a Material Weakness.

The DOT OIG has reported a number of times in recent years that financial stewardship over billions of dollars in grants to states and municipalities must be improved. In addition, the DOT OIG has reported that FHWA must improve its ability to identify hundreds of millions of dollars of idle funds on completed, canceled, or modified projects, and use the funds more productively on active projects. Because of the large amounts of funds that are involved, and the inherent risk of making improper payments when dealing with large transportation project contracts, FHWA has a responsibility to maintain reasonable assurance that states spend Federal funds properly. Our work continues to raise substantial doubts that FHWA has adequate safeguards in place to minimize improper payments to grantees.

The majority of FHWA's grant payments are processed on a Payment Request Voucher through the Rapid Approval State Payment System (RASPS). The payment request details expenditures by project at the summary level. The Division Financial Manager typically reviews the payment requests submitted in RASPS for unusual items. Such reviews are based on the Financial Manager's knowledge and expertise in the project expenditures, coupled with discussions with the Division Engineer, Project Manager, etc. However,



support for the payment request is maintained by the grantee. Many of FHWA's Division Offices relied on the Single Audit process alone to provide assurance that the grantees' billing was accurate in FY 2004; however, Single Audit procedures are not designed to support that type of assurance.

FHWA does not have a systematic process in place to ensure that the grant payments made were supported by systems and processes to capture the full costs of the project, in accordance with acceptable accounting standards and practices. The disbursement approval process was flawed for much of the year. FHWA management realized in June 2004 that RASPS had a default approval feature that automatically approved the grantees' payment requests. Prior to FHWA management disabling this feature, the formal approval of the Financial Manager, or other officials with delegated authority, was not always required. Approximately \$4 billion in payments were processed in FY 2004 with this automatic approval process. However, as noted above, since the current system in place is not conducive to reviewing supporting documents for such payments, management decided not to go back to reevaluate the authenticity of payments made under this automatic approval process. Although this does not mean that all payments were improper, it does raise significant questions about the potential magnitude of improper disbursements.

In June 2001, FHWA issued the "Policy on Stewardship and Oversight of the Federal Highway Programs." This policy requires each Division Office to perform a risk/benefit analysis or similar prioritization process to identify appropriate oversight activities. In addition, Division Offices are required to document oversight activities performed in their annual performance plans and submit such plans to FHWA headquarters for review. This policy has not been consistently followed by the FHWA Division Offices. We also noted that the Division Offices have not been performing the risk assessments reviews consistently. Such reviews should have included periodic procurement system and billing process reviews to ensure grant disbursements were properly supported. FHWA headquarters has historically relied on its Division Offices to determine the extent and frequency of conducting risk assessment and oversight activities on the grantees. Consequently, there is no mechanism in place to determine if the Division offices are following the policy.

During our audit, we selected 45 grant projects for testing. The following summarizes some of the key exceptions noted in this testing:

- In 41 of 45 grant projects sampled, required financial management risk assessment and associated reviews of grantees were not performed. Our testing included inquiries of the Division Offices regarding the documentation of the grantees' billing processes as well as whether the financial management assessments and reviews were complete. In many cases, we were informed that these reviews had not been done.
- In 34 projects, Division Offices did not provided details of their current bill review.
- In 3 current year disbursements, adequate documentation to support the payments was not available from Division Offices.



In June 2003, the OIG reported that controls over construction payments were generally not effective. In reviewing a random sample of construction payments (\$98 million), the OIG found that \$7 million (7 %) of these payments were not adequately documented. Although this does not mean that all seven percent were improperly paid, it raises significant questions about the potential magnitude of improper payments.

The DOT OIG has also reported a significant number of fraud cases (brought to OIG's attention via the hotlines) related to FHWA programs. There have been 128 convictions in the past five years, 29 of which occurred in 2004. This further indicates the significant potential for abuse and, accordingly, the need for revised oversight policies in the financial management oversight area of FHWA's operation.

Federal Grant Systems are required to provide complete and accurate funds control over grantee payments. RASPS, FHWA's grant payment system, lacks edits to properly document payment approval actions, and under certain circumstances, fails to properly verify funds availability. The available funds balance can be changed between the time of the fund approval process and the time the funds are disbursed.

Given the concern over adequate documentation to support disbursements made by HTF Agencies, DOT management performed a study of the risk associated with grant payments. However, the study concluded that it was difficult to identify improper payments given the level of electronic payments made. The study results also noted that the limited data supporting electronic payments did not allow for the review of specific costs charged to the award. The study also acknowledged that the Agencies rely on the Single Audit process and closeout reports to identify improper payments. We do not believe there is a basis for this reliance.

Due to little or no review of supporting documentation by management for grant disbursements there is increased risk of improper payments. Management has indicated that they agree with this assessment and, accordingly, has hired a consultant to perform specific testing for improper payments in FY 2005, including determining an error rate.

In September 2004, FHWA drafted a new financial oversight and review policy entitled, "Financial Accountability and Integrity Review" (FAIR). We were informed that FHWA management intends to finalize and implement FAIR in FY 2005. Until the policy is implemented and proven to be effective, this Material Weakness will likely be repeated in future years.

Even though the weaknesses are not as significant as those noted at FHWA, FTA is also weak in the financial management oversight area of its operations.

Recommendations:

- a) We commend FHWA management for its plan to implement the new FAIR program. We have briefly read the draft and are impressed with the overall spirit of the document. The draft program must be implemented immediately to close the loophole that currently exists in the grants payment approval process.



However, the key to the success of this or any new program is for the implementation plan to be mandated by top management, with accountability consequences established. In addition, the implementation of these new policies and procedures must be reviewed and monitored closely to ensure compliance by the Division offices. Such monitoring should include:

- Tracking risk assessment and review results issued by the Division Offices to assess the overall impact of these results on the grant programs;
 - Follow up on findings and potential issues in a timely manner to ensure that grantees implement necessary changes; and
 - Update FAIR procedures as necessary to address specific weakness in the policies noted during the program's implementation.
- b) We recommend that FHWA provide necessary training for headquarters and Division Office personnel to be involved in the implementation and monitoring of FAIR. This is necessary to ensure that they understand the purpose of the program and the processes related to its successful implementation.
- c) Develop appropriate edits in RASPS to validate funds availability prior to approval of payments.
- d) FTA must develop procedures to enhance its current system of financial management oversight over funds provided to grantees.

4. Information Technology Control Weaknesses

Condition: We noted weaknesses in several aspects of the information technology (IT) systems in both the general and specific applications used by HTF Agencies to prepare the financial statements of HTF. Because of the sensitivity of matters mentioned below, a separate report ("Limited Use Management Letter") has been issued to management describing in detail, the specific deficiencies identified and recommendations to correct these deficiencies.

The IT weaknesses noted directly impact the ability of the users to rely on data being generated by the systems and, accordingly, require the users to employ extended financial analysis of such information to ensure its accuracy. Without effective users controls, the data being generated from the information systems cannot be relied upon to produce accurate financial statements. The breadth of weaknesses noted in the IT area of the audit, and the lack of compensating controls to mitigate these weaknesses, collectively indicates a material weakness in internal control. In addition, the ineffectiveness of the users to process and analyze data generated from these systems in a timely matter without extraordinary efforts increases the risk for even more errors in the HTF financial statements than those identified in the audit of the financial statements (Material Weakness No. 1).



The following is a summary of the systems reviewed in connection with the FY 2004 audit of the HTF financial statements, along with a general discussion of weaknesses noted and described in more detail in the aforementioned "Limited Use Management Letter":

- a) **Delphi** – Delphi is referred to as the Central System for Financial Accounting and Reporting. It is used by all HTF agencies and is more commonly known as the general ledger accounting system. The last Agency was converted to Delphi in FY 2004. Significant problems were noted during most Agencies' conversions over the years, some of which are still having an impact on the data in reports generated by the system.
 - The DOT OIG issued a report on general controls related to Delphi. The OIG found that the control environment surrounding this application was not sufficient to provide for adequate security, confidentiality and integrity of financial information processed. Compensating controls were not evident to offset these deficiencies.
- b) **Specific Feeder Systems Applications** - Grants related activity represents over ninety percent of activity reflected in the HTF financial statements. Accordingly, reliance on data being generated from these systems by the systems users is critical to their ability to prepare reliable financial statements in a timely manner. In addition, weaknesses noted could have a material effect on the amounts reflected in the HTF financial statements at September 30, 2004.
 - In particular, weaknesses were noted in the grant management and payment systems used by FHWA relating to agency-wide security program planning and management, logical access controls, business continuity planning and application controls.
 - During our audit, we tested general information technology controls and application controls over the following key systems in support of Highway Trust Fund's financial transactions and reporting:
 - a) FHWA only - Rapid Approval and State Payment System (RASPS), and Fiscal Management Information System (FMIS)
 - b) All HTF Agencies - User Profile and Access Control System (UPACS) and DELPHI Interface Management System (DIMS),

With respect to general controls, we found weaknesses in financial system certification and accreditation, risk assessments, system testing and evaluation, background checks for financial system contractors, managing user profiles, logical access controls over financial applications and databases, financial systems access for separated employees, backup tape management and alternate processing facility.

With respect to application controls in these feeder systems, we noted that certain applications needed improvement related to compliance with the Federal



Financial Management Improvement Act (FFMIA), compliance with OMB Circular NO. A-127 “Financial Management Systems”, unsupported operating system/application platforms, grant approval and payment edit features, application auto log-off (standby) feature, sufficient documented procedures for user account management and documentation to support management of sensitive output (media and reports).

We also performed tests of two grant feeder systems used by FTA: the Electronic House Operation System (ECHO) and the Transportation Electronic Award Management System (TEAM). Even though the data processed in such systems is primarily used in other DOT activities; the weakness noted do have some impact on certain amounts reported in the HTF financial statements. Weaknesses noted in these feeder systems are not as significant as those used by FHWA but are also described in the aforementioned “Limited Use Management Letter” and need management’s attention.

Recommendation: We recommend HTF Agencies work with DOT management to improve their information technology environment by implementing the specific recommendations provided in the aforementioned separate report. We have been informed that management has made changes to address many of the weaknesses noted during the audits (both by the OIG and us). However, management must test the effectiveness of these changes during FY 2005, at which time they will be evaluated during the FY 2005 audit.

REPORTABLE CONDITION

1. Federal Lands Highway Program Transaction Processing And Reconciliations

Condition: FHWA has a program titled Federal Lands Highway Program (Fed Lands) whose mission is to plan design, construct and rehabilitate roads and bridges providing access to, through and within Federal and Indian lands. Direct TEA-21 funding for Fed Lands was approximately \$700 million in FY 2004.

As stated in Material Weakness No. 2 above, Federal Lands has not performed a complete reconciliation for all open projects in Delphi since its conversion in FY 2003. In addition, Federal Lands management has not determined the specific reports its needs from Delphi to assist them in this effort.

In connection with our tests of the Fed Lands accounting process used by FHWA, we selected a sample of twenty-five Federal Lands transactions with payments aggregating \$1 million and obligations aggregating \$14 million. Our examination included a review of source documentation to ensure the transactions were properly authorized and complete. The sample was randomly selected to represent the characteristics of the population as a whole. The results of our testing are summarized below:



No. Of Items From Sample	Dollar Value Of Items Examined	Description Of Exception
5	Differences ranging from \$206,516 to (\$223,926)	Obligation differences existed between Delphi and the project contracts due to the lack of reconciliations performed by the Federal Lands Division Offices. Federal Lands Financial Managers did not reconcile obligations from the contract to the amounts recorded in Delphi.
3	\$30,082	Expenditure amounts recorded in Delphi that exceeded the obligation amounts.
6	\$378,492	Source documentation for the payment was not provided or the payment was made without proper approval.
1	\$35,000	A contract officer's delegation of authority to obligate funds was not documented.
2	\$51,920	A contract officer exceeded the obligation authority in executing the contracts.
3	\$179,620	Invitation to Bid documentation was not available.
1	\$5,976,812	The Contracting Officer did not properly sign the award letter examined.
2	\$1,705,254	Documentation for Transportation Improvement Program (TIP)/Statewide Transportation Improvement Program (STIP) was not available.
3	\$19,004	Noncompliance with Prompt Payment Act provisions.
18	\$1,150,787	The Object Class Code used to record the Federal Lands transactions was not appropriate. The Delphi Object Class Code, 25305, Contract Services Other – Other Services, was used to record Federal Lands disbursements the majority of the time. This “Other” category should not aggregate to a material amount. During fiscal 2004, over \$170 million was classified using that Object Class Code.

In addition, the Statement on Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, states that earned revenue should be recognized at the time a Government entity provides goods or services to the public or another Government entity. Federal Lands collect advance payments from other Federal Agencies prior to providing services. It also makes advance payments to other Federal Agencies prior to receiving services outlined in the inter-agency agreements. Earned revenues and expenses were not recorded at the transaction level based on when the service was provided or received, but recorded instead when cash was received or paid. As a result, some earned revenue and expense balances at year-end were inaccurately reported in the financial statements.



Recommendations: We recommend the following:

- a) Establish reconciliation policies and procedures to ensure that obligation and disbursement amounts are recorded in Delphi on all open projects. Source documentation should be reviewed to ensure the accuracy of data in Delphi. Discrepancies should be researched and necessary adjustments made in Delphi in a timely manner. This recommendation is also included with Material Weakness No. 1.
- b) Implement absolute fund control procedures in Delphi to prevent payments exceeding obligation amounts. Projects with negative Undelivered Orders situations should be identified and resolved immediately.
- c) Implement procedures to ensure that source documentation supporting the payments is properly approved and maintained so that payments recorded in Delphi can be adequately supported.
- d) Close completed contracts immediately after the contractor has met contract deliverables. FHWA management should review Delphi reports of open contract to determine the status of old contracts.
- e) Provide necessary training/oversight to all relevant personnel to ensure transaction documentation, contract authority, procurement and approval procedures are followed.
- f) Routinely update signature authority lists and document proper approval on all purchase orders/contracts prior to the purchase commitment being made.
- g) Strengthen procedures to ensure payments are made within 30 days of invoice receipt.
- h) Develop appropriate Object Class codes for Federal Lands transactions in Delphi, and implement procedures to ensure that all Federal Lands transactions are assigned to the proper object class.
- i) Establish correct transaction codes in Delphi to properly record advance payments made to and collected from other agencies. Such recording should be based upon when services are received or provided.

We considered the Agencies internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.



Finally, with respect to internal control related to performance measures reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

In summary, the Material Weaknesses in internal control described above may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by HTF Agencies, including budget information, also may contain misstatements resulting from these deficiencies.

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operations that we reported to the management of HTF Agencies in a separate letter dated November 8, 2004.

COMPLIANCE WITH LAWS AND REGULATIONS

Except as noted below, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. The objective of our audit was not to provide an opinion on the Agencies' overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

- 1. Single Audit Act of 1984 (SAA)** - Agencies collectively have awarded over \$40 billion in Federal Financial Assistance in the form of grants in FY 2004, many of which are over \$300,000, and therefore, must comply with the SAA. For FY 2004, OMB increased the threshold for Single Audit coverage to \$500,000.

During our review of each Agency's policies and procedures for grants, we noted the provisions of the SAA, and the related OMB Circular No. A-133 had not been effectively implemented. Even though certain Agencies have started to establish procedures to monitor activity of their Federal Financial Assistance recipients and to comply with the provisions of the Circular, those procedures were not fully implemented in FY 2004. In addition, some Agencies have no procedures to specifically address the Single Audit issues.

In connection with our review of the files of forty-five recipients of Federal Financial Assistance, we noted the following specific examples that support our conclusion that DOT and the Agencies did not have an effective program in place to ensure compliance with the provisions of the SAA:

- Audit Reports for fourteen recipients were submitted late; and



- Agency management's decision on audit findings for one recipient was not made within six months after receipt of the audit report by DOT from the Federal Clearing House.

Similar matters were reported in our FY 2003 report, and the volume of exceptions in our testing has declined. Compliance with OMB Circular No. A-133 should be reemphasized to appropriate Agency staff, with special emphasis on ensuring that management decisions are issued to the recipient for all Single Audit reports received within the six-month timeframe required by the Act.

2. **Federal Managers Financial Integrity Act of 1982 (FMFIA)** - FMFIA, and the related *OMB Circular No. A-123*, requires agencies to issue an Annual Statement to OMB on whether the Agency's financial management systems and automated information security programs conform with government-wide requirements, as defined by *OMB Circular No. A-127*. OMB Circular No. A-130, Appendix III, requires agencies to report security deficiencies and material weaknesses within their FMFIA reporting mechanisms as defined by OMB Circular No. A-123, and take corrective actions in accordance with that directive.

In general, the Agencies except for FMCSA, do not have complete formalized procedures in place to identify, assess, and monitor management controls over various financial areas, including their financial information systems. FMCSA has formally conducted risk assessment on its assessable units and developed a comprehensive FMFIA program. However, FMCSA did not go through the process of monitoring and validating whether management controls worked effectively as designed in fiscal 2004. It plans to document its validation in fiscal 2005. Accordingly, in varying degrees, Agencies did not adequately document and/or validate their support for DOT's compliance with FMFIA.

DOT's FMFIA report has made reference to the weaknesses in its internal control and its non-compliance with financial management systems and processes that are detailed in this audit report.

3. **Anti-Deficiency Act** - The following matters were identified as matters of non-compliance with the Anti-deficiency Act:
 - a) FHWA continues to encounter difficulties in processing its normal business transactions and in performing reconciliations due to the lack of fund status report from Delphi during FY 2004. We noted four funds with obligations in excess of its budgetary authority by approximately \$600 thousand through September 30, 2004. Since FHWA is still researching certain fund status issues, it is uncertain if an anti-deficiency matter does exist. Accordingly, FHWA has not reported this matter to OMB and Congress.
 - b) The prior year Audit Report identified an anti-deficiency matter whereby DOT improperly expended the Treasury miscellaneous receipts in the amount of \$49 million. DOT returned \$44 million to the Treasury through September 30, 2003.



The remaining \$5 million is mostly attributed to FHWA's Federal-Aid Highway activities. DOT reported this violation to OMB and Congress in FY 2003.

- c) The prior year Audit Report identified an anti-deficiency matter for FTA relating to a one-time over obligations in 1984 of approximately \$562 million. At September 30, 2004, the remaining over obligated amount was approximately \$77 million. FTA has requested a deficiency appropriation from Congress to fund this amount; however, Congress had not appropriated the amount as of September 30, 2004. DOT reported this violation to OMB and Congress in FY 2003.

- 4. Government Performance and Results Act of 1993** - GPRA requires agencies to adequately manage programs efficiently and effectively. To comply with this law Agencies must have a cost accounting system to capture costs of specific programs. As reported in FY 2003, HTF Agencies have not fully implemented the managerial cost accounting in FY 2004 and, accordingly, did not present the full cost of each program in its Statement of Net Cost for FY 2004.

In response to the President's Management Agenda, HTF Agencies must devise an accounting methodology to allocate resource use by program objectives and link resource use to actual program results. HTF Agencies' strategic plans typically link management goals with program goals and objectives, but the full cost to accomplish the desired program result is not readily available to management. The Agencies do not allocate internal resources such as salaries, equipment, and program resources such as formula and discretionary grants to specific activities or program delivery outcomes. Cost accounting is intended to enhance this linkage by identifying the cost of Federal resources used by a program in relation to specific goals and objectives, and to support the process of resource allocation to program allocation in the budget process. Management did not adequately identify programs for disclosure in its financial statements. The line items detailed in Note 10 ("Net Program Cost") to the financial statements were not consistent with OMB's definition of a program, "a specific activity or project as listed in the program and financing schedules of the annual budget of the U.S. Government." The implementation of a managerial cost accounting system will allow Agency management to analyze program costs in relation to achieving program objectives. This will enable management to improve the performance of program cost effectiveness.

SYSTEMS COMPLIANCE WITH FFMIA REQUIREMENTS

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by HTF Agencies substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803a requirements.



The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, our work disclosed instances, described below, in which financial management systems used by HTF Agencies did not substantially comply with federal financial management systems requirements, Federal Accounting Standards and the SGL at the transaction level. Such instances of noncompliance, summarized below, are described in more detail in the Material Weaknesses described in our Report on Internal Control.

1. **Preparation of Financial Statements** - As indicated in our Report on Internal Controls, the process used, including utilization of the Delphi accounting system, was not adequate to prepare reliable and timely financial statements during the year or at September 30, 2004. Prior to preparing the HTF financial statements, an extensive amount of adjustments were made to the FHWA accounting records. Even though some of these adjustments are considered “normal cleanup” entries, many were the result of the performance of manually intensive analysis and reconciliations. In addition, these adjustments included entries to correct system processing errors, record activities not recorded at the transaction level due to the lack of standard transaction codes set up in Delphi, and entries to correct the discrepancies with the data reflected in subsidiary systems.

FFMIA requires agencies to produce auditable financial statements based on data from its financial systems on a timely basis. Given the problems HTF Agencies encountered in generating reliable financial statements in a timely manner, and the difficulties they encountered with their accounting and reporting systems, HTF Agencies did not substantially comply with Federal financial management system requirements for the year ended September 30, 2004.

2. **Use of Standard General Ledger** – Agencies did not use Delphi to capture all accounting events at the transaction level to meet OMB or Treasury reporting requirements. Some examples of this situation are noted below:
 - NHTSA reported a negative \$737 million in SGL account 4139 when the accounts should have a positive balance of approximately \$1 million at September 30.
 - FHWA suspense account transactions did not follow the SGL posting rules set forth by the Treasury. SGL Accounts 1310, 1450, 2110, 2120, 4610, 4901, 4902, 6100, and 6330 were used to record suspense transactions throughout FY 2004.
 - Certain Agencies used SGL Account 2400 as the default account to balance entries that did not balance initially throughout FY 2004.
3. **Federal Accounting Standards** – Some HTF Agencies were not in full compliance with the SFFAS No. 4 *Managerial Cost Accounting Concepts and Standards for the Federal Government* and the related provisions of the Government Performance and Results Act (GPRA). The FY 2004 financial statements did not properly reflect full costs or measure the effectiveness of the Agencies’ programs. The Statement of Net Cost for



HTF was not presented by GPRA program and was therefore not comparable to DOT's major goals and outputs described in its strategic and performance plan.

In addition, FHWA was not compliant with SFFAS No. 7, *Accounting for Revenue and Other Financial Sources*, in its revenue and expense recognition related to Federal Lands inter-agency advance payments and collections. The earned revenue and expenses related to Federal Lands were incorrectly reported during the year and at year-end.

4. **Data Processing Control Environment** - During our review of IT controls, we determined there was a Material Weakness in certain IT controls. The matters supporting this determination are detailed in Material Weakness No. 4 in the Internal Control Report.

STATUS OF PRIOR YEAR'S REPORTABLE CONDITIONS

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the Agencies' corrective actions with respect to the findings and recommendations included in the prior year's report on Agencies' internal control dated January 13, 2004. The following analysis provides our assessment of the progress Agencies have made through September 30, 2004 in correcting the conditions identified in the FY 2003 Internal Control and Laws and Regulations Compliance reports.

Internal Control Report:

The FY 2003 Internal Control Report identified the following Material Weaknesses:

- Financial Statement Preparation and Analysis;
- Reconciliation Procedures;
- Conversion To New Accounting System; and
- Computer Security Weaknesses.

The accounting and reporting concepts identified in these matters continue to exist in FY 2004 and, accordingly, have contributed to Material Weaknesses number 1, 2 and 4.

The "*Conversion To New Accounting System*" finding last year included a recommendation to quickly "cleanup" accounting processes and procedures prior to the end of FY 2004 to avoid problems in preparing financial statements. Management did implement several improvements in policies and procedures; however, such improvements were not sufficient to overcome the enormity of the problems that existed nine months ago. As a result of the "cleanup" of the accounting records in FY 2004, described in Material Weakness No. 1, several adjustments were needed to the accounting records prior to preparing the financial statements at September 30, 2004.



With respect to Reportable Conditions, the “*Grants Financial Management Oversight*” finding last year was upgraded to a Material Weakness this year (number 3). FHWA had not implemented new procedures recommended to improve controls to ensure funds are safeguarded against fraud, waste and abuse. In addition, new matters described in Material Weakness No. 3, substantially increased the risk of improper payments.

Laws and Regulations Compliance:

- 1. Condition – Single Audit Act of 1984 (SAA):** Even though improvements have been noted, the matters identified in our prior year report continued to exist in FY 2004. These matters are addressed in our Report on Compliance with Laws and Regulations.
- 2. Condition – The Federal Managers Financial Integrity Act of 1982 (FMFIA):** Even though improvements have been noted, the matters identified in our prior year report continued to exist in FY 2004. These matters are addressed in our Report on Compliance with Laws and Regulations.
- 3. Condition – Anti-Deficiency Act:** The conditions identified in the prior year report continued to exist in FY 2004. These matters are addressed in our Report on Compliance with Laws and Regulations.
- 4. Condition – Managerial Cost Accounting and Performance Measurement:** Even though improvements have been noted, the matters identified in our prior year report continued to exist in FY 2004. These matters are addressed in our Report on Compliance with Laws and Regulations.

CONSISTENCY OF OTHER INFORMATION

Management’s Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with HTF officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

OBJECTIVES, SCOPE AND METHODOLOGY

Management is responsible for (1) preparing the financial statements in conformity with generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA (as codified in 31 U.S.C. 3512) are met, (3) ensuring that the financial management systems used by Agencies substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.



We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether the financial management systems used by Agencies substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding of assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Accountability Report, (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether the financial management systems used by the Agencies substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to specific HTF Agencies. We limited our tests of compliance to those laws and regulations required by OMB audit guidance we deemed applicable to the financial statements for the fiscal year ended September 30, 2004. Our work on FFMIA would not necessarily disclose all instances of lack of substantial non-compliance with FFMIA requirements. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.



The CFOs of DOT and of each HTF Agency comprising the accounts of HTF have been assigned the responsibility of addressing the weaknesses identified in our report and ensuring the substantial compliance with FFMIA. Attached to this report (Appendix A) is Management's Response to the findings and recommendations summarized above.

We performed our work in accordance with government auditing standards generally accepted in the United States of America and OMB audit guidance.

This report is intended solely for the information and use of the management of FHWA, NHTSA, FTA, FRA, FMCSA, BTS, DOT, and DOT-OIG, OMB and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 8, 2004



APPENDIX A

MANAGEMENT RESPONSE TO AUDITOR'S REPORT November 8, 2004

**U.S. Department of
Transportation**Office of the Secretary
of TransportationAssistant Secretary
for Budget and Programs
and Chief Financial Officer400 Seventh St., S.W.
Washington, D.C. 20590

NOV 10 2004

MEMORANDUM TO: Sal Ercolano
Partner, Clifton Gunderson

FROM: Linda M. Combs *Linda M. Combs*
Assistant Secretary for Budget and Programs/Chief
Financial Officer

SUBJECT: Management Response – Audit of the Highway Trust
Fund's Fiscal Years (FY) 2004 and FY 2003 Financial
Statements

The Department is pleased to respond to your audit report on the Highway Trust Fund (HTF) FY 2004 and FY 2003 Financial Statements. For the sixth consecutive year we have achieved an unqualified audit opinion on the HTF Financial Statements.

We concur with the four material weaknesses and the reportable conditions contained in your report. The Department plans to submit a detailed Action Plan to the Inspector General no later than December 15, 2004, to address the findings contained in your report. We generally agree with the recommendations contained in the report and will use them as the basis for our corrective action measures.

The Statement of Budgetary Resources was restated for FY 2003, per Office of Management and Budget (OMB) guidance. The revised amounts reflect adjustments to correct several years of inaccurate reporting to the Highway Trust Fund by the Department of Treasury's (Treasury) Bureau of Public Debt (BPD). The revised amounts accurately reflect the total budgetary resources and the status of budgetary resources pursuant to the requirements of Treasury and the Standard General Ledger crosswalk FY 2004 amounts have been reported accurately, per Treasury and OMB guidance.

The Department recognizes that achieving an unqualified audit was accomplished through our joint efforts. The problems identified during the FY 2004 and FY 2003 audits revealed weaknesses in accounting practices and policies that have existed for many years. With the FY 2003 audit being completed at the end of January 2004 and the FY 2004 audit beginning in mid July, there was little time available to accomplish corrective actions. During FY 2004, the Federal Highway Administration (FHWA) took aggressive actions to implement corrective measures. FHWA did, however, experience a number of issues that impacted their success in the short time available. These include,



the complexity of researching old differences between feeder systems and the accounting system, the time needed to train new staff and implement reconciliation procedures, and the loss of the senior FHWA accountant responsible for preparing the financial statements.

We are committed to continue to work with FHWA as they continue implementing corrective action measures and take steps to enhance the processes by supplementing existing staff with more experienced contractors or Federal employees.

The Department's Office of Financial Management will work closely with the HTF OAs and provide guidance on the corrective action implementations to ensure the Department is complying with OMB and Treasury standards.

I would like to thank you and your staff for effort and continuing professionalism exhibited during the course of the audit.

Cc: Kenneth Mead
Inspector General

CONSOLIDATED BALANCE SHEETS
As of September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
ASSETS		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 4,270,531	\$ 4,163,237
Investments (Note 3)	10,211,852	13,966,553
Accounts receivable, net (Note 4)	594	25,857
Other assets (Note 5)	14,052	17,271
Total intragovernmental	14,497,029	18,172,918
Accounts receivable, net (Note 4)	14,889	30,157
Property, plant and equipment, net (Note 6)	47,021	46,856
Other assets (Note 5)	172,220	100,242
TOTAL ASSETS	\$ 14,731,159	\$ 18,350,173
LIABILITIES		
Intragovernmental:		
Accounts payable	\$ 8,369	\$ 33,040
Other liabilities (Note 8)	53,964	7,095
Total intragovernmental	62,333	40,135
Accounts payable	139,252	15,323
Federal employee and veterans' benefits payable (Note 9)	12,455	14,221
Grant liabilities (Note 7)	2,195,580	2,443,591
Other liabilities (Note 8)	180,966	39,147
Total liabilities	2,590,586	2,552,417
NET POSITION - Cumulative results of operations	12,140,573	15,797,756
TOTAL LIABILITIES AND NET POSITION	\$ 14,731,159	\$ 18,350,173

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
PROGRAM COSTS - Surface Transportation (Note 10)		
Intragovernmental gross costs	\$ 477,181	\$ 309,087
Less: intragovernmental earned revenue	(9,305)	(35,775)
Intragovernmental net costs	467,876	273,312
Gross costs with the public	30,965,084	31,259,651
Less: earned revenues from the public	(4,533)	(32,158)
Net costs with the public	30,960,551	31,227,493
NET COST OF OPERATIONS	\$ 31,428,427	\$ 31,500,805

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004 Cumulative Results of Operations	2003 Cumulative Results of Operations
BEGINNING BALANCES	\$ 15,797,756	\$ 19,522,043
BUDGETARY FINANCING SOURCES:		
Excise taxes/non-exchange revenue (Note 11)	34,724,328	34,115,172
Transfers in/out without reimbursement	(6,825,397)	(6,411,311)
Other adjustments, recessions, etc.	(342,075)	47,387
OTHER FINANCING SOURCES:		
Imputed financing from costs absorbed by others	214,388	25,270
TOTAL FINANCING SOURCES	27,771,244	27,776,518
NET COST OF OPERATIONS	31,428,427	31,500,805
ENDING BALANCES	\$ 12,140,573	\$ 15,797,756

Accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2004 and 2003

(Dollars in thousands)

	2004	2003 (Restated)
BUDGETARY RESOURCES (Notes 12 and 14)		
Budget authority:		
Appropriations received	\$ 40,563,870	\$ 38,672,799
Contract authority	39,821,905	37,422,324
Net transfers	(241,697)	85,327
Unobligated balance:		
Beginning of period	27,867,151	30,186,773
Subtotal	108,011,229	106,367,223
Spending authority from offsetting collections:		
Earned:		
Collected	76,595	81,409
Receivable from Federal sources	14,523	(14,068)
Change in unfilled customer orders:		
Advances received	93,584	-
Without advance from Federal sources	20,446	16,892
Transfers from trust funds	11,150	11,150
Subtotal	216,298	95,383
Recoveries of prior year obligations	22,179	14,322
Temporarily not available pursuant to Public Law	(28,661)	-
Permanently not available	(40,950,844)	(38,906,317)
Total Budgetary Resources	\$ 67,270,201	\$ 67,570,611
STATUS OF BUDGETARY RESOURCES:		
Obligations incurred		
Direct	\$ 38,184,298	\$ 39,522,853
Reimbursable	21,218	78,271
Subtotal	38,205,516	39,601,124
Unobligated balance:		
Apportioned	6,703,667	5,408,951
Exempt from apportionment	326,392	702,407
Unobligated balance not available	22,034,626	21,858,129
Total Status of Budgetary Resources	\$ 67,270,201	\$ 67,570,611
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated balance, net – beginning of period	\$ 43,773,115	\$ 42,407,941
Obligated balance, net – end of period:		
Accounts receivable	(2,336)	(247)
Unfilled customer orders from Federal sources	(49,053)	(38,555)
Undelivered orders	41,634,586	40,957,627
Accounts payable	2,386,168	2,837,295
Outlays:		
Disbursements	38,623,114	38,246,941
Collections	(181,329)	(103,701)
Subtotal	38,441,785	38,143,240
Less: Offsetting Receipts	(7,494)	-
Net Outlays	\$ 38,434,291	\$ 38,143,240

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCING
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations incurred	\$ 38,205,516	\$ 39,601,124
Less: Spending authority from offsetting collections and recoveries	238,477	109,705
Obligations net of offsetting collections and recoveries	37,967,039	39,491,419
Less: Offsetting receipts	(7,494)	-
Net Obligations	37,959,545	39,491,419
Non-budgetary Resources:		
Imputed financing from costs absorbed by others	214,388	25,270
Net non-budgetary resources used to finance activities	214,388	25,270
Total Resources Used to Finance Activities	38,173,933	39,516,689
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE COST OF OPERATIONS		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	64,917	1,228,038
Resources that fund expenses recognized in prior periods	382	226
Resources that finance the acquisition of assets	-	4,263
Other resources or adjustments to net obligated resources that do not affect net cost of operations	6,918,135	6,810,936
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	6,983,434	8,043,463
Total Resources Used to Finance the Net Cost of Operations	31,190,499	31,473,226
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	13,525	(1,824)
Other	207,574	57,193
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	221,099	55,369
Components Not Requiring or Generating Resources:		
Depreciation and amortization	1,099	(9,455)
Revaluation of assets or liabilities	15,730	9,735
Other	-	(28,070)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	16,829	(27,790)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	237,928	27,579
NET COST OF OPERATIONS	\$ 31,428,427	\$ 31,500,805

Accompanying notes are an integral part of these financial statements.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Highway Trust Fund (HTF) are comprised of the Highway Corpus Trust Fund, held by the U.S. Department of Treasury Bureau of Public Debt, and certain accounts of the following Operating Administrations (Agencies) of the Department of Transportation (DOT): Bureau of Transportation Statistics (BTS), Federal Highway Administration (FHWA), Federal Motor Carrier Safety Administration (FMCSA), Federal Transit Administration (FTA), Federal Railroad Administration (FRA), and the National Highway Traffic Safety Administration (NHTSA). The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation of net cost to budgetary resources.

The financial statements have been prepared from the books and records of the DOT Agencies and the U.S. Department of the Treasury, Bureau of Public Debt. Such financial statements have been prepared in accordance with generally accepted accounting principles (GAAP), and the form and content requirements specified by the Office of Management and Budget's (OMB) *Bulletin Form and Content of Agency Financial Statements* (No. 01-09). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated as the official accounting standards-setting body for the U.S. Federal Government by the American Institute of Certified Public Accountants.

The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

REPORTING ENTITY

For purposes of this financial statement, the principal reporting entity is HTF, not the performing Agencies. Accordingly, all assets are considered "non-entity assets." The financial statements report activity for all relevant funds and such activities under the "Ground Transportation" budget sub-function category. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years, use of the fund has been expanded to embrace highway safety.

The consolidated HTF financial statements represent the following organizations and programs:

FEDERAL HIGHWAY ADMINISTRATION (FHWA)

69X8083	Federal Aid Highways - Liquidation of Contract Authority Bureau of Transportation Statistics (BTS) Maritime Administration (MARAD)
69X8072	Appalachian Highway Development System,
30 Accounts	Miscellaneous Trust Fund Accounts



NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

69X8020	Highway Traffic Safety Grants
69X8016	Trust Fund and Traffic Safety Programs
69X8362	National Driver Register

FEDERAL TRANSIT ADMINISTRATION (FTA)

69X8191	Mass Transportation Capital Fund
69X8350	Trust Fund Share of Expenses

FEDERAL RAILROAD ADMINISTRATION (FRA)

69X8552	High-Speed Ground Transportation
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FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION (FMCSA)

69X8048	National Motor Carrier Safety Grants
69X8055	Motor Carrier Safety Administrative Expenses
698274	Safety of Cross-Border Trucking

US DEPARTMENT OF THE TREASURY, BUREAU OF PUBLIC DEBT (CORPUS HTF)

2081021	Corpus Highway Trust Fund
2081022	Corpus Mass Transit Account

BUDGETS AND BUDGETARY ACCOUNTING

The HTF programs are financed from authorizations through enacted Highway and Transit legislation authorizing and codified in Title 23 of the United States Code (U.S.C.). Funds are apportioned to the States under Title 23 U.S.C. and Title 49, Subtitle III by the Secretary of Transportation for Highway and Transit construction, are provided in advance of the liquidation of appropriations, and are available for a specific time period. The annual appropriation acts establish the level of obligations that the States can obligate against the Federal Aid funds in any single year. Obligations are incurred based on these annual limitations under the allotment control procedures. Liquidating appropriations enable Federal Aid payments to be made to States as claims are submitted and approved for payment. The HTF Agencies recognize budgetary resources as assets, when cash funds held by the Department of Treasury are made available through a General Fund warrant and Trust Fund Transfers.

BASIS OF ACCOUNTING

The HTF Agencies use both the accrual and budgetary basis of accounting to record transactions. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The financial statements were prepared following accrual accounting. Budgetary account balances are included in certain statements as appropriate. Budgetary accounting principles ensure that funds are obligated according to legal requirements. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control the Agencies' use of budgetary resources.



All material intra-HTF Agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB Bulletin No. 01-09.

USE OF ESTIMATES

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from those estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the Office of Tax Analysis (OTA), (b) year-end accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivables. Actual results may differ from these estimates. Estimates will be adjusted with actual amounts in the year such actual amounts are known.

REVENUE AND OTHER FINANCING SOURCES

All programs and activities covered in these financial statements are financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. Annual appropriations make available these tax revenues collected for programs as authorized by law. A small portion of activities is financed from offsetting collections for reimbursable work performed under agreement. Taxes are recognized as revenues at the time they are deposited in the Corpus Highway Trust Fund account.

FUNDS WITH THE U. S. TREASURY AND CASH

Funds appropriated for the Federal Aid Highways and Mass Transit programs remain invested in non-interest bearing securities by the Treasury. As approved claims are submitted and approved for payment, requests for cash are made to the Treasury, securities are divested and funds are made available for payment of claims. Small amounts of cash receipts are deposited daily in a commercial lockbox bank. No cash is held outside the United States in foreign currency, gold or other monetary assets.

INVESTMENTS IN U. S. GOVERNMENT SECURITIES

It is the responsibility of the Secretary of the Treasury to invest such portions of the trust fund that exceed current needs. Such investments may only be made in non-marketable obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

ACCOUNTS RECEIVABLE

Accounts receivable are reported net of an allowance for uncollectible accounts. The reported accounts receivable consist principally of services performed for other Federal agencies under general working agreements with Federal agencies responsible for designated Federal domain areas such as Park Roads and Parkways, Forest Highways, etc. Administrative reimbursable receivables represent technical services billed, Motor Carrier fines and penalties, reimbursements from employees, and miscellaneous refunds.

PROPERTY AND EQUIPMENT

Property and equipment purchases are valued at cost and are capitalized when the cost is \$25,000 or more with a useful life of more than two years.



Depreciation on equipment, buildings and capital improvements is computed using the straight-line method based on the useful life of the assets with one-half year's depreciation taken in the year of acquisition. Property and equipment is depreciated as follows: equipment over useful lives ranging from three to five years, ADP Software for five years, and structures, facilities and capital improvements for thirty years. Class lives for all property is based on the Internal Revenue Service classification system. Routine maintenance and repair costs are expensed as incurred. Depreciation expense is recouped through rates assessed against Federal Lands Highway projects.

PREPAID AND DEFERRED CHARGES

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expense when the related goods and services are received.

LIABILITIES

Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources or other resources represent amounts owed in excess of available appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources are dependent on future congressional appropriations or other funding. Intragovernmental liabilities are claims against HTF Agencies by other Federal entities.

ACCOUNTS PAYABLE

Accounts Payable are amounts the HTF entities owe to other Federal agencies and the public. Accounts payable to Federal Agencies generally consist of amounts due under inter-agency reimbursable agreements. Accounts payable to the public primarily consist of estimated amounts incurred, but not yet claimed by the HTF contract recipients and unpaid goods and services received by the HTF agencies.

GRANT LIABILITY

The accrued grant liability consists of requests for payments from grantees outstanding at September 30, plus an accrual for grantee expenses incurred but yet not reported to the HTF Agency as of September 30.

CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to a HTF Agency. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when (1) a past transaction or event has occurred, (2) a future outflow or other sacrifice of resources is more likely than not, (3) and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable.



ANNUAL, SICK AND OTHER LEAVE

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued at year-end based on the latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year revenues are not available to fund annual and other types of vested leave earned, but not taken. Non-vested leave is expensed when used.

ACCRUED WORKERS' COMPENSATION

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because Agencies will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

RETIREMENT PLANS

The majority of employees whose salaries are paid from the trust fund participate in the Federal Employees Retirement System (FERS). Other employees participate in the Civil Service Retirement System (CSRS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1984. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agencies automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. The remaining forty-five percent (45%) of employees whose salaries are paid from the trust fund participate in CSRS, to which agencies make matching contributions equal to seven percent (7%) of their pay.

For most employees hired since December 31, 1983, Agencies also contribute the employer's matching share for Social Security. Agencies do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM) and FERS.

The FASAB's SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the full cost of pensions, health and life insurance benefits, during their employees' active years of service. OPM, as the administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. Accordingly, an imputed financing source and corresponding imputed personnel cost are reflected in the Statement of Changes in Net Position, the Statement of Net Cost, and the Statement of Financing, respectively. These imputed balances do not affect the net position of the HTF.

TAXES

The HTF Agencies are not subject to Federal, State or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.



NOTE 2 – FUND BALANCES WITH TREASURY

Fund balances with Treasury are considered trust funds, and represent obligated balances not yet disbursed. The following table summarizes such funds by HTF Agency at September 30, 2004 and 2003.

	2004	2003
FHWA	\$ 522,097	\$ 1,170,192
Corpus HTF	3,349,741	2,541,210
FMCSA	124,282	200,818
FTA	39,959	54,979
NHTSA	234,140	195,726
FRA	312	312
Total	\$ 4,270,531	\$ 4,163,237

The obligated balance not yet disbursed, or undelivered orders, represents appropriations obligated (i.e., legally reserved) for the amount of goods and services ordered but not yet received. Unobligated balances are either available for obligation or not available (permanently or temporarily) pursuant to the specific provision in law. The Fund Balance with Treasury does not include any unobligated balances available or unavailable.

NOTE 3 - INVESTMENTS

Investments (cost equals market value) at September 30, 2004 and 2003 are summarized as follows:

	2004	2003
Highway Account	\$ 6,819,962	\$ 9,515,990
Mass Transit Account	3,391,890	4,450,563
Total	\$ 10,211,852	\$ 13,966,553

Securities represent non-marketable market based U.S. Treasury Certificates of Indebtedness. As provided by Section B of the Comparison of Transportation Revenue and Related Provisions of H.R. 2400, the Highway Trust Fund earns no interest on these securities that matured on June 30, 2004. The amount by HTF Agency that has been appropriated, but not yet been transferred to DOT is detailed below:

	2004	2003
FHWA Federal Aid	\$ 6,666,776	\$ 3,292,000
FHWA Other	809,400	899,695
FMCSA	165,832	58,395
FTA	377,050	487,000
Total	\$ 8,019,058	\$ 4,737,090

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2004 and 2003 are summarized as follows:

	2004			2003		
	Accounts Receivable Principal	Allowance	Net Accounts Receivable	Accounts Receivable Principal	Allowance	Net Accounts Receivable
Intragovernmental	\$ 594	\$ -	\$ 594	\$ 25,857	\$ -	\$ 25,857
With the Public	14,889	-	14,889	30,169	(12)	30,157
Total	\$ 15,483	\$ -	\$ 15,483	\$ 56,026	\$ (12)	\$ 56,014

Account receivable balances as of September 30, 2004 and 2003 by Agency are as follows:

	2004		2003	
	Intragovernmental	Public	Intragovernmental	Public
FHWA	\$ 7,476,770	\$ 11,820	\$ 4,210,688	\$ 20,321
FMCSA	165,832	3,069	65,209	820
FTA	377,050	-	487,050	-
Corpus	-	-	-	9,016
Less: Elimination	(8,019,058)	-	(4,737,090)	-
Total	\$ 594	\$ 14,889	\$ 25,857	\$ 30,157

NOTE 5 - OTHER ASSETS

Other assets at September 30, 2004 and 2003 are summarized as follows:

	2004	2003
Intragovernmental – Advances and prepayments	\$ 14,052	\$ 17,271
With the Public:		
Advances to states for rights of way	98,557	97,563
Other advances and prepayments	73,663	2,679
Subtotal	172,220	100,242
Total	\$ 186,272	\$ 117,513

Intragovernmental other assets consist of advances paid to other government agencies for expenses not yet incurred, or for goods or services not yet received, and undistributed assets and payments.



NOTE 6 –PROPERTY, PLANT AND EQUIPMENT

Property and Equipment at September 30, 2004 and 2003 are summarized as follows:

	2004			2003		
	Acquisition Cost	Accumulated Depreciation	Book Value	Acquisition Cost	Accumulated Depreciation	Book Value
Land	\$ 180	\$ -	\$ 180	\$ 180	\$ -	\$ 180
Buildings and structures	17,488	-	17,488	18,231	-	18,231
Furniture and equipment	48,462	20,024	28,438	45,940	18,635	27,305
Other	873	-	873	657	107	550
Construction in progress	42	-	42	590	-	590
Total	\$ 67,045	\$ 20,024	\$ 47,021	\$ 65,598	\$ 18,742	\$ 46,856

FHWA recognizes amortization of costs (depreciation) over the life of assets. Capital expenditures for property are recognized as expended when applied to projects and/or upon disposal of assets.

Road construction equipment on Federal highway supervised projects account for the largest portion of the equipment/depreciation expense. The recorded construction equipment expense is based on the number of hours to total useful operating life.

Buildings consist of the Turner Fairbank Research Station located in Langley, Virginia and a historically designated Mule Barn in Vancouver, Washington.



NOTE 7 – GRANT LIABILITIES

Grant liabilities consist of two distinct categories and cover these Agencies: FHWA (Federal Aid and Federal Lands), FMCSA and NHTSA.

The first category is grant related requests for payments that had been billed to an Agency entity as of September 30, but had not yet been paid. The information related to this portion of the grant liability is obtained directly from the DELPHI corporate accounting system as of September 30.

The second category is for grant related costs incurred, but not yet reported (IBNR). IBNR represents an estimate of amounts due to grantees for their expenditures made through September 30, for which payment requests have not been received from grantees as of September 30.

The grant accrual calculation is principally based on the results of studies and grantee surveys conducted by the Agencies. The results of such studies resulted in an average number of days work that would have been incurred but not yet reported to the HTF agency for disbursements. This calculated number of days is multiplied by an amount representing grant disbursements for a particular period of time to determine the amount of the grant liability accrual at year-end.

Grant liabilities by Agency at September 30, 2004 and 2003 are summarized as follows:

	2004	2003
FHWA	\$ 2,115,993	\$ 2,353,325
FMCSA	10,268	8,461
NHTSA	69,319	81,805
Total	<u>\$ 2,195,580</u>	<u>\$ 2,443,591</u>



NOTE 8 – OTHER LIABILITIES

	2004			2003		
	Non-Current Liabilities	Current Liabilities	Total	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental						
Covered by budgetary resources:						
Advances and prepayments	\$ -	\$ 48,085	\$ 48,085	\$ -	\$ 956	\$ 956
Accrued pay and benefits	-	2,090	2,090	-	3,274	3,274
Other	-	793	793	-	331	331
Total Intragovernmental Liabilities Covered by Budgetary Resources	-	50,968	50,968	-	4,561	4,561
Not covered by budgetary resources:						
Federal Employees Compensation Act	-	2,873	2,873	1,197	1,337	2,534
Other	-	123	123	-	-	-
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	-	2,996	2,996	1,197	1,337	2,534
Total Intragovernmental Other Liabilities	\$ -	\$ 53,964	\$ 53,964	\$ 1,197	\$ 5,898	\$ 7,095
Public						
Covered by budgetary resources:						
Other accrued unbilled payments	\$ -	\$ 52,422	\$ 52,422	\$ -	\$ 72,817	\$ 72,817
Accrued pay and benefits	-	12,485	12,485	-	7,017	7,017
Undistributed and unapplied collections	-	-	-	-	(77,058)	(77,058)
Advances and prepayments	-	289	289	-	445	445
Other	-	28	28	-	-	-
Total Public Liabilities Covered by Budgetary Resources	-	65,224	65,224	-	3,221	3,221
Not covered by budgetary resources:						
Accrued pay and benefits	-	8,283	8,283	-	34,725	34,725
Other	-	107,459	107,459	-	1,201	1,201
Total Public Liabilities Not Covered by Budgetary Resources	-	115,742	115,742	-	35,926	35,926
Total Public Other Liabilities	\$ -	\$ 180,966	\$ 180,966	\$ -	\$ 39,147	\$ 39,147

**NOTE 9 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

	<u>2004</u>	<u>2003</u>
Intragovernmental - other liabilities	\$ 2,996	\$ 2,534
Federal employee and veterans' benefits payable	12,455	14,221
Other	<u>115,742</u>	<u>35,926</u>
Total Liabilities Not Covered by Budgetary Resources	131,193	52,681
Total Liabilities Covered by Budgetary Resources	<u>2,459,293</u>	<u>2,499,736</u>
Total	<u><u>\$ 2,590,586</u></u>	<u><u>\$ 2,552,417</u></u>

The Department of Labor calculates the FECA liability for DOT. DOT allocates the liability amount to the HTF Agencies based upon actual worker's compensation payments to the HTF Agency employees over the preceding four years. FECA liabilities include the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary resources and thus will require future appropriated funding.

NOTE 10 – NET PROGRAM COSTS

	2004	2003
Surface Transportation Programs		
Interstate Maintenance	\$ 3,933,214	\$ 4,032,790
National Highway System	6,767,454	6,414,436
Bridge Program	3,378,600	3,318,410
Surface Transportation	7,256,287	7,373,737
Minimum Guarantee	2,516,100	2,832,259
Federal Lands Highways	221,599	369,569
Emergency Relief	177,015	172,029
Research and Development	816,813	242,539
Congestion Mitigation and Air Quality	937,166	884,383
Safety Programs	91,560	127,609
High Priority Projects	1,183,664	1,328,515
Woodrow Wilson Bridge	119,603	147,601
Planning	142,232	139,314
Appalachian Highway System	261,943	323,066
Other Highway Trust Funds	301,682	-
State Infrastructure Bank	-	14,440
Miscellaneous Highway Trust Funds	188,411	347,241
Transit Programs	214,136	289,542
NHTSA Programs	622,217	366,678
FMCSA Programs	396,829	299,038
Department of Interior Allocated Programs	401,112	303,821
Department of Transportation Allocated Programs	23,144	384,169
Administration	356,592	324,184
National Coordinated Planning and Development Border Infrastructure	187,952	-
Redistribution of Certain Authorized Funds	160,664	-
Other	772,438	1,465,435
Total	\$ 31,428,427	\$ 31,500,805

In order to provide more accurate reporting, management changed the manner in which it allocated costs to the Surface Transportation Programs in FY 2004. Such changes involved the method of categorizing projects within programs and a revision in the grant accrual for each program. The "Other" category is comprised of small miscellaneous projects. This new methodology was not retroactively applied to FY 2003 amounts.

**NOTE 11 – EXCISE TAXES AND ASSOCIATED REVENUE**

The Internal Revenue Service (IRS) collects various excise taxes that are deposited into the HTF. These are used to fund operations in the FHWA (including BTS), FTA, NHTSA, FRA, and FMCSA. The United States Treasury estimates the amount collected/revenue recognized, and adjusts such estimates for the actual quarterly collections. The IRS submits certificates of actual tax collections to FHWA six months after the quarter end and, accordingly, the HTF financial statements are adjusted to reflect such actual amounts at that time. Accordingly, total tax revenue recognized for the year ended September 30, 2004 and 2003 includes the Office of Tax Analysis (OTA) estimates as follows:

<u>Quarter Ended</u>	<u>2004</u>	<u>2003</u>
June 30	\$ 9,042,544	\$ -
September 30	\$ 8,689,872	\$ 9,267,728

For the six months ended March 31, 2004 actual tax collections reported by the IRS were lower than the OTA estimates by approximately \$1 billion. The financial statements of HTF reflect actual tax collections for the six months ended March 31, 2004, plus an estimate of tax collections expected for the two quarters ended June 30, 2004 and September 30, 2004, as noted in the above table. Actual tax collections data for the two quarters ended June 30, 2004 and September 30, 2004 will not be available from the IRS until December 2004 and March 2005, respectively. Management does not believe that the actual tax collections for the quarters ended June 30, 2004 and September 30, 2004 will be materially different than the OTA estimate of such collections for those quarters.



FINANCIAL SECTION

For the years ended September 30, 2004 and 2003, respectively, excise taxes and associated non-exchange revenue, which are reported on the Statement of Changes in Net Position, were as follows:

	<u>2004</u>	<u>2003</u>
Excise taxes (transferred from the general fund):		
Gasohol	\$ 5,716,127	\$ 2,740,664
Diesel and special motor fuels	8,935,465	8,536,830
Trucks	3,237,017	3,053,139
Gasoline	18,244,158	21,207,711
Fines and penalties	16,457	15,254
IMTP revenue	25	112
IMTP transfer	-	2,644
Total taxes	<u>36,149,249</u>	<u>35,556,354</u>
Less transfer to:		
Land and water conversation fund	(1,000)	(1,000)
General fund	(111,350)	(118,572)
Aquatic reserve	(311,639)	(289,682)
Gross taxes	<u>35,725,260</u>	<u>35,147,100</u>
Less refunds of taxes (reimbursed to general fund):		
Gasoline	(305,286)	(318,547)
Gasohol	(27,751)	(17,448)
Diesel	(625,821)	(642,428)
Special motor fuel	(1,342)	(766)
Gas to make gasohol	(22,865)	(22,309)
Diesel fuel bus use	(31,423)	(30,430)
Total refund of taxes	<u>(1,014,488)</u>	<u>(1,031,928)</u>
Total Excise Taxes	34,710,772	34,115,172
Other Non-Exchange Revenue	<u>13,556</u>	<u>-</u>
Total Excise Taxes and Net Non-Exchange Revenue	<u><u>\$34,724,328</u></u>	<u><u>\$34,115,172</u></u>



NOTE 12 – STATEMENT OF BUDGETARY RESOURCES

	2004	2003
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and exempt from apportionment as of September 30, 2004	\$ 38,205,516	\$ 39,601,124
Available contract authority as of September 30, 2004	\$ 29,064,685	\$ 27,332,182
No adjustments were needed to the beginning balance of Budgetary Resources during FY 2004. However, adjustments to the beginning balance of Budgetary Resources in FY 2003 were as follows:		
Rescissions	-	1,627,108
Prior Year Recoveries	-	(14,322)
Cancelled Authority	-	16,745
Liquidating Authority	-	37,262,464
Total Adjustments to Beginning Balance of Budgetary Resources	\$ -	\$ 38,891,995

HTF Agencies did not have borrowing authority, repayment requirements, permanent indefinite appropriations, or receive any contributed capital in FY 2004.

Unobligated balances of budgetary resources of unexpired accounts are available in subsequent years upon apportionment from OMB, and are subject to the obligation limitation contained in DOT Appropriations Acts. As a result of the obligation limitation, \$23,591,357 was not available for obligation in FY 2004. Unobligated balances of expired accounts are not available.

Appropriations received consist of liquidating contract authority that has been appropriated in the current year's appropriation bill (P.L. 108-7).

There are no differences between the information required by SFFAS No. 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2003. For FY 2004, the "actual" budget of the U.S. Government has not been finalized.

The Statement of Budgetary Resources (SBR) is combined and as such, intra-entity transactions have not been eliminated.

FHWA's current practice nets current year obligations against current and prior year recoveries. This treatment was specifically recognized by OMB in section 22.2 of former OMB Circular No. A-34 (1985). OMB has recognized this practice via a letter dated September 30, 2003.



FINANCIAL SECTION

Budget authority was allocated to and administered by the following departments outside of DOT:

	2004	2003
Agriculture	\$ 10,011	\$ 59,914
Interior	244,796	302,916
Appalachian Regional Commission	691	613
Defense	3,835	3,926
Tennessee Valley Authority	135	135
Total	<u>\$ 259,468</u>	<u>\$ 367,504</u>

NOTE 13 - CONTINGENCIES

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. At September 30, 2004, \$36,337,275 has been pre-authorized under these arrangements; however, no liability is reflected in the HTF financial statements at September 30, 2004 for these arrangements.

NOTE 14 - RESTATEMENT OF AMOUNTS IN FY 2003

STATEMENT OF BUDGETARY RESOURCES

Significant adjustments were needed to the amounts previously reported on the Statement of Budgetary Resources (SBR) at September 30, 2003. The adjustments related to a change in reporting requirements from OMB, which the Bureau of Public Debt was required to report un-invested tax collections as receipts unavailable for obligation as they relate to the Highway Corpus Fund investment. This correction resulted in a net decrease to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of \$11,401,684 at September 30, 2003.

The following table details specific line items being restated on the SBR at September 30, 2003:

	As Previously Reported	Adjustments	As Restated
Budgetary Resources:			
Appropriations Received	\$ 33,923,489	\$ 4,749,310	\$ 38,672,799
Unobligated Balance - Beginning of Period	46,337,767	(16,150,994)	30,186,773
Total Budgetary Resources	<u>\$ 78,972,295</u>	<u>\$ (11,401,684)</u>	<u>\$ 67,570,611</u>
Status of Budgetary Resources:			
Unobligated Balance Not Available	33,259,813	(11,401,684)	21,858,129
Total Status of Budgetary Resources	<u>\$ 78,972,295</u>	<u>\$ (11,401,684)</u>	<u>\$ 67,570,611</u>

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

INVESTMENT IN HUMAN CAPITAL – SURFACE TRANSPORTATION

For The Year Ended September 30, 2004

(Dollars in thousands)

	2000	2001	2002	2003	2004
Federal Highway Administration (1)					
National Highway Institute Training	\$ 7,304	\$ 3,202	\$ 9,146	\$ 8,539	\$ 4,069
Federal Motor Carrier Safety Administration (2)					
California Highway Patrol				926	192
Idaho Video		243	199	593	344
Massachusetts Training Academy			25	175	9
Minnesota Crash Investigation			18	57	21
National Highway Safety Administration (3)					
Section 403 Highway Safety Programs	38,000	42,000	46,000	46,000	47,000
Highway Traffic Safety Grants	207,000	213,000	223,000	225,000	224,000
Total	<u>\$ 252,304</u>	<u>\$ 258,445</u>	<u>\$ 278,388</u>	<u>\$ 281,290</u>	<u>\$ 275,635</u>

Notes:

- (1) The National Highway Institute develops and conducts various training courses for all aspects of the Federal Highway Administration. Students are typically from the state and local police, state highway departments, public safety and motor carrier vehicle employees, and U.S. citizens and foreign nationals. Types of courses given and developed are: modern developments, technique, management, planning, environmental factors, engineering safety, construction and maintenance.
- (2) The California Highway Patrol educates the trucking industry about federal and state commercial motor vehicle/carrier inspection procedures, and increases CMV driver awareness. The Idaho Video Program develops video training material utilized by the FMCSA National Training Center for the purpose of training State and Local law enforcement personnel. The Massachusetts Training Academy provides training to State law enforcement personnel located in the northeast region of Massachusetts. The Minnesota Crash Investigation program provides training and develops processes and protocols for commercial motor vehicle crash investigations.
- (3) NHTSA's programs authorized under the Highway Trust Fund provide resources to state and local governments, private partners, and the public, to effect changes in driving behavior on the nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all states on the full range of components of the impaired driving system as well as conducts demonstrations, training, and public information/education on safety belt usage.



INVESTMENT IN RESEARCH AND DEVELOPMENT – SURFACE TRANSPORTATION

For The Year Ended September 30, 2004

(Dollars in thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Federal Highway Administration (1)					
Intelligent Transportation Systems	\$ 144,734	\$ 103,980	\$ 124,950	\$ 126,256	\$ 146,852
Other Applied Research and Development	132,634	118,425	183,142	115,368	142,557
Total	<u>\$ 277,368</u>	<u>\$ 222,405</u>	<u>\$ 308,092</u>	<u>\$ 241,624</u>	<u>\$ 289,409</u>

Note:

- (1) FHWA's research and development programs are earmarks in the appropriations bills for the fiscal year. Typically, these programs are related to safety, pavements, structures and environment. Intelligent Transportation systems were created to promote automated highways and vehicles to enhance the National Highway System. The output is in accordance with the specifications within the appropriations act.

INVESTMENTS IN TRANSPORTATION – SURFACE TRANSPORTATION

For The Year Ended September 30, 2004

(Dollars in thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Federal Highway Administration (1)					
Federal Aid Highway	\$24,920,221	\$25,876,082	\$29,377,231	\$29,258,796	\$29,207,012
Other Highway Trust Fund Programs	42,269	85,807	211,883	243,874	300,493
Appalachian Development System	157,219	23,801	146,306	128,480	263,430
Federal Motor Carrier	91,822	125,261	149,091	159,628	299,450
Total	<u>\$25,211,531</u>	<u>\$26,110,951</u>	<u>\$29,884,511</u>	<u>\$29,790,778</u>	<u>\$30,070,385</u>

Note:

- (1) FHWA reimburses states for construction costs on projects related to the Federal Highway System of roads. The main programs in which the states participate are the National Highway System, Interstate Systems, Surface Transportation Program and Congestion Mitigation/Air Quality Improvement. The states' contribution is ten percent for the Interstate System and twenty percent for other programs.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

TRADING PARTNER INFORMATION
For The Year Ended September 30, 2004
(Dollars in thousands)

Agency	Assets				Liabilities		Fiscal 2004 Activity			
	Fund Balance w/Treasury	Investments	Accounts Receivable	Other	Accounts Payable	Other Liabilities	Earned Revenue	Gross Cost	Non-exchange Revenue	Transfers Out
Dept of the Treasury (2000)	\$4,270,531	\$10,211,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$34,724,328	\$ -
Dept. of Transportation (6900)	-	-	-	-	-	-	-	-	-	(6,825,397)
Other:	-	-	594	14,052	8,369	53,964	9,305	477,181	-	-
Total	<u>\$4,270,531</u>	<u>\$10,211,852</u>	<u>\$ 594</u>	<u>\$ 14,052</u>	<u>\$ 8,369</u>	<u>\$ 53,964</u>	<u>\$ 9,305</u>	<u>\$ 477,181</u>	<u>\$34,724,328</u>	<u>\$(6,825,397)</u>

Note: Trading partner activity relating to the operations of the HTF Agencies of DOT are principally reflected in the non-trust accounts of the OA. Accordingly, such activity is not reflected in the financial statements of HTF, but instead in the financial statements of DOT.

BUDGET SUB-FUNCTION CLASSIFICATION
For The Year Ended September 30, 2004
(Dollars in thousands)

	Gross Cost and Earned Revenue			Intra-governmental Gross Cost and Earned Revenue		
	Gross Cost	Earned Revenue	Net Cost	Gross Cost	Earned Revenue	Net Cost
401 Ground Transportation	31,442,265	13,838	31,428,427	477,181	9,305	467,876
Total	<u>\$ 31,442,265</u>	<u>\$ 13,838</u>	<u>\$ 31,428,427</u>	<u>\$ 477,181</u>	<u>\$ 9,305</u>	<u>\$ 467,876</u>

OTHER ACCOMPANYING INFORMATION

CONSOLIDATING BALANCE SHEET
For The Year Ended September 30, 2004
(Dollars in thousands)

	Federal Aid Highways	Other Highway Trust Funds	FMCSA Trust Fund	Corpus Hwy. Trust Fund	FTA Trust Fund	NHTSA Trust Fund	FRA Trust Fund	Eliminations	Total
ASSETS									
Intragovernmental									
Fund balance with Treasury	\$ 329,128	\$ 192,969	\$ 124,282	\$ 3,349,741	\$ 39,959	\$ 234,140	\$ 312	\$ -	\$ 4,270,531
Investments	-	-	-	10,211,852	-	-	-	-	10,211,852
Accounts receivable, net	6,667,370	809,400	165,832	-	377,050	-	-	(8,019,058)	594
Other assets	8,522	-	5,403	-	127	-	-	-	14,052
Total intragovernmental	7,005,020	1,002,369	295,517	13,561,593	417,136	234,140	312	(8,019,058)	14,497,029
Accounts receivable, net	11,820	-	3,069	-	-	-	-	-	14,889
Property, plant and equipment	44,282	164	2,575	-	-	-	-	-	47,021
Other assets	74,186	97,999	35	-	-	-	-	-	172,220
TOTAL ASSETS	\$ 7,135,308	\$ 1,100,532	\$ 301,196	\$ 13,561,593	\$ 417,136	\$ 234,140	\$ 312	\$ (8,019,058)	\$ 14,731,159
LIABILITIES									
Intragovernmental:									
Accounts payable	\$ (2,484)	\$ 10,141	\$ 712	\$ 7,999,328	\$ -	\$ -	\$ -	\$ (7,999,328)	\$ 8,369
Other liabilities	46,242	-	7,481	-	109	132	-	-	53,964
Total intragovernmental	43,758	10,141	8,193	7,999,328	109	132	-	(7,999,328)	62,333
Accounts payable	122,309	-	16,349	-	-	594	-	-	139,252
Federal employee and veterans' benefits payable	10,266	359	1,830	-	-	-	-	-	12,455
Grant liabilities	2,115,993	-	10,268	-	-	69,319	-	-	2,195,580
Other liabilities	132,238	-	7,957	-	34,498	6,273	-	-	180,966
Total liabilities	2,424,564	10,500	44,597	7,999,328	34,607	76,318	-	(7,999,328)	2,590,586
NET POSITION									
Cumulative results of operations	4,710,744	1,090,032	256,599	5,562,265	382,529	157,822	312	(19,730)	12,140,573
TOTAL LIABILITIES AND NET POSITION	\$ 7,135,308	\$ 1,100,532	\$ 301,196	\$ 13,561,593	\$ 417,136	\$ 234,140	\$ 312	\$ (8,019,058)	\$ 14,731,159

Note: The HTF accounts of the Bureau of Transportation Statistics are included in the column for Federal Aid Highways. Such amounts are not material to the Federal Aid Highways or HTF as a whole.

CONSOLIDATING STATEMENT OF NET COST
For The Year Ended September 30, 2004
(Dollars in thousands)

	<u>Federal Aid Highways</u>	<u>Other Highway Trust Funds</u>	<u>FMCSA Trust Fund</u>	<u>Corpus Hwy. Trust Fund</u>	<u>FTA Trust Fund</u>	<u>NHTSA Trust Fund</u>	<u>FRA Trust Fund</u>	<u>Total</u>
Program Costs - Surface Transportation								
Intragovernmental gross costs	\$ 384,458	\$ 1,189	\$ 64,062	\$ -	\$ 11,749	\$ 15,723	\$ -	\$ 477,181
Less: intragovernmental earned revenue	(3,206)	-	(422)	-	-	(5,677)	-	(9,305)
Intragovernmental net costs	381,252	1,189	63,640	-	11,749	10,046	-	467,876
Gross costs with the public	29,969,398	300,493	299,450	-	148,833	246,910	-	30,965,084
Less: earned revenues from the public	(4,273)	-	(142)	-	21	(139)	-	(4,533)
Net costs with the public	29,965,125	300,493	299,308	-	148,854	246,771	-	30,960,551
NET COST OF OPERATIONS	\$30,346,377	\$ 301,682	\$ 362,948	\$ -	\$ 160,603	\$ 256,817	\$ -	\$31,428,427

Notes:

- (1) Intra-OA transactions are not material.
- (2) The HTF accounts of the Bureau of Transportation statistics are included in the column for Federal Aid Highways. Such amounts are not material to the Federal Aid Highways or HTF as a whole.

CONSOLIDATING STATEMENT OF CHANGE IN NET POSITION
For The Year Ended September 30, 2004
(Dollars in thousands)

	<u>Federal Aid Highways</u>	<u>Other Highway Trust Funds</u>	<u>FMCSA Trust Fund</u>	<u>Corpus Hwy. Trust Fund</u>	<u>FTA Trust Fund</u>	<u>NHTSA Trust Fund</u>	<u>FRA Trust Fund</u>	<u>Eliminations</u>	<u>Total</u>
BEGINNING BALANCES	\$ 1,842,874	\$ 1,357,743	\$ 234,511	\$11,799,689	\$ 470,546	\$ 112,081	\$ 312	\$ (20,000)	\$15,797,756
BUDGETARY FINANCING SOURCES:									
Excise taxes/non-exchange revenue	139	-	13,417	34,710,772	-	-	-	-	34,724,328
Transfers in/out without reimbursement	33,007,334	49,705	366,070	(40,550,191)	1,085	300,600	-	-	(6,825,397)
Other adjustments, recissions, etc.	(291)	(15,734)	184	(398,005)	71,501	-	-	270	(342,075)
OTHER FINANCING SOURCES:									
Imputed financing from costs absorbed by others	207,065	-	5,365	-	-	1,958	-	-	214,388
TOTAL FINANCING SOURCES	33,214,247	33,971	385,036	(6,237,424)	72,586	302,558	-	270	27,771,244
NET COST OF OPERATIONS	30,346,377	301,682	362,948	-	160,603	256,817	-	-	31,428,427
ENDING BALANCES	\$ 4,710,744	\$ 1,090,032	\$ 256,599	\$ 5,562,265	\$ 382,529	\$ 157,822	\$ 312	\$ (19,730)	\$12,140,573

Notes:

- (1) Intra-OA transactions are not material.
- (2) The HTF accounts of the Bureau of Transportation statistics are included in the column for Federal Aid Highways. Such amounts are not material to the Federal Aid Highways or HTF as a whole.

COMBINING STATEMENT OF BUDGETARY RESOURCES

For The Year Ended September 30, 2004

(Dollars in thousands)

	Federal Aid Highways	Other Highway Trust Funds	FMCSA Trust Fund	Corpus Hwy. Trust Fund	FTA Trust Fund	NHTSA Trust Fund	FRA Trust Fund	Total
BUDGETARY RESOURCES:								
Budget authority:								
Appropriations received	\$ 34,000,000	\$ 50,000	\$ 366,070	\$ -	\$ 5,847,200	\$ 300,600	\$ -	\$ 40,563,870
Contract authority	33,311,635	-	366,070	-	5,847,200	297,000	-	39,821,905
Net transfers	(1,263,373)	-	-	-	1,021,676	-	-	(241,697)
Unobligated balance:								
Beginning of period	27,226,481	532,234	18,622	-	84,054	5,760	-	27,867,151
Subtotal	93,274,743	582,234	750,762	-	12,800,130	603,360	-	108,011,229
Spending authority from offsetting collections:								
Earned:								
Collected	54,748	-	13,567	-	52	8,228	-	76,595
Receivable from Federal sources	14,875	-	(352)	-	-	-	-	14,523
Change in unfilled customer orders								
Advances Received	87,283	-	6,301	-	-	-	-	93,584
Without advance from Federal sources	13,945	-	6,501	-	-	-	-	20,446
Transfers from trust funds	-	-	-	-	-	11,150	-	11,150
Subtotal	170,851	-	26,017	-	52	19,378	-	216,298
Recoveries of prior year obligations	-	-	1,114	-	20,981	26	58	22,179
Temporarily not available	-	-	-	-	(28,661)	-	-	(28,661)
Permanently not available	(34,400,331)	(295)	(368,230)	-	(5,881,698)	(300,290)	-	(40,950,844)
Total Budgetary Resources	\$ 59,045,263	\$ 581,939	\$ 409,663	\$ -	\$ 6,910,804	\$ 322,474	\$ 58	\$ 67,270,201
STATUS OF BUDGETARY RESOURCES:								
Obligations incurred								
Direct	\$ 30,487,786	\$ 154,142	\$ 374,370	\$ -	\$ 6,864,277	\$ 303,723	\$ -	\$ 38,184,298
Reimbursable	-	-	12,990	-	-	8,228	-	21,218
Subtotal	30,487,786	154,142	387,360	-	6,864,277	311,951	-	38,205,516
Unobligated balance:								
Apportioned	6,316,443	383,944	1,973	-	-	1,307	-	6,703,667
Exempt from Apportionment	246,082	33,835	-	-	46,475	-	-	326,392
Unobligated balance not available	21,994,952	10,018	20,330	-	52	9,216	58	22,034,626
Total Status of Budgetary Resources	\$ 59,045,263	\$ 581,939	\$ 409,663	\$ -	\$ 6,910,804	\$ 322,474	\$ 58	\$ 67,270,201
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:								
Obligated balance, net – beginning of period	\$ 42,018,269	\$ 696,467	\$ 291,673	\$ -	\$ 448,340	\$ 318,054	\$ 312	\$ 43,773,115
Obligated balance, net – end of period:								
Accounts receivable	(2,219)	-	(47)	-	(70)	-	-	(2,336)
Unfilled customer orders from Federal sources	(36,371)	-	(12,702)	-	20	-	-	(49,053)
Undelivered orders	40,205,864	547,466	306,494	-	297,303	277,205	254	41,634,586
Accounts payable	2,281,281	1,261	29,305	-	434	73,887	-	2,386,168
Outlays								
Disbursements	30,699,677	301,881	348,720	-	6,993,949	278,887	-	38,623,114
Collections	(142,031)	-	(19,868)	-	(52)	(19,378)	-	(181,329)
Subtotal	\$ 30,557,646	\$ 301,881	\$ 328,852	\$ -	\$ 6,993,897	\$ 259,509	\$ -	\$ 38,441,785
Less: Offsetting Receipts	(7,473)	-	-	-	(21)	-	-	(7,494)
Net Outlays	\$ 30,550,173	\$ 301,881	\$ 328,852	\$ -	\$ 6,993,876	\$ 259,509	\$ -	\$ 38,434,291

Notes: (1) There are no non-budgetary financing accounts. (2) Intra-OA transactions are not material. (3) The HTF accounts of the Bureau of Transportation statistics are included in the column for Federal Aid Highways. Such amounts are not material to the Federal Aid Highways or HTF as a whole.

CONSOLIDATING STATEMENT OF FINANCING

For The Year Ended September 30, 2004

(Dollars in thousands)

	Federal Aid Highways	Other Highway Trust Funds	FMCSA Trust Fund	Corpus Hwy. Trust Fund	FTA Trust Fund	NHTSA Trust Fund	FRA Trust Fund	Total
RESOURCES USED TO FINANCE ACTIVITIES								
Budgetary Resources Obligated:								
Obligations incurred	\$ 30,487,786	\$ 154,142	\$ 387,360	\$ -	\$ 6,864,277	\$ 311,951	\$ -	\$ 38,205,516
Less: Spending authority from offsetting collections and recoveries	(170,851)	-	(27,131)	-	(21,033)	(19,404)	(58)	(238,477)
Obligations net of offsetting collections and recoveries	30,316,935	154,142	360,229	-	6,843,244	292,547	(58)	37,967,039
Less offsetting receipts	(7,473)	-	-	-	(21)	-	-	(7,494)
Net obligations	30,309,462	154,142	360,229	-	6,843,223	292,547	(58)	37,959,545
Non-budgetary Resources:								
Imputed financing from costs absorbed by others	207,065	-	5,365	-	-	1,958	-	214,388
Net non-budgetary resources used to finance activities	207,065	-	5,365	-	-	1,958	-	214,388
Total Resources Used to Finance Activities	30,516,527	154,142	365,594	-	6,843,223	294,505	(58)	38,173,933
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE COST OF OPERATIONS								
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	\$ 297,826	\$ (147,540)	\$ (3,966)	\$ -	\$ (151,793)	\$ 70,448	\$ (58)	\$ 64,917
Resources that fund expenses recognized in prior periods	993	-	(611)	-	-	-	-	382
Resources that finance the acquisition of assets	-	-	-	-	-	-	-	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	81,781	-	13,091	-	6,834,413	(11,150)	-	6,918,135
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	380,600	(147,540)	8,514	-	6,682,620	59,298	(58)	6,983,434
Total Resources Used to Finance the Net Cost of Operations	\$ 30,135,927	\$ 301,682	\$ 357,080	\$ -	\$ 160,603	\$ 235,207	\$ -	\$ 31,190,499
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD								
Components Requiring or Generating Resources in Future Periods:								
Increase in annual leave liability	\$ 2,286	\$ -	\$ 482	\$ -	\$ -	\$ 10,757	\$ -	\$ 13,525
Other	207,065	-	509	-	-	-	-	207,574
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	209,351	-	991	-	-	10,757	-	221,099
Components Not Requiring or Generating Resources:								
Depreciation and amortization	1,099	-	-	-	-	-	-	1,099
Revaluation of assets or liabilities	-	-	4,877	-	-	10,853	-	15,730
Other	-	-	-	-	-	-	-	-
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,099	-	4,877	-	-	10,853	-	16,829
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	210,450	-	5,868	-	-	21,610	-	237,928
NET COST OF OPERATIONS	\$30,346,377	\$ 301,682	\$ 362,948	\$ -	\$ 160,603	\$ 256,817	\$ -	\$ 31,428,427

Notes: (1) There are no non-budgetary financing accounts. (2) Intra-OA transactions are not material. (3) The HTF accounts of the Bureau of Transportation statistics are included in the column for Federal Aid Highways. Such amounts are not material to the Federal Aid Highways or HTF as a whole.



FINANCIAL SECTION

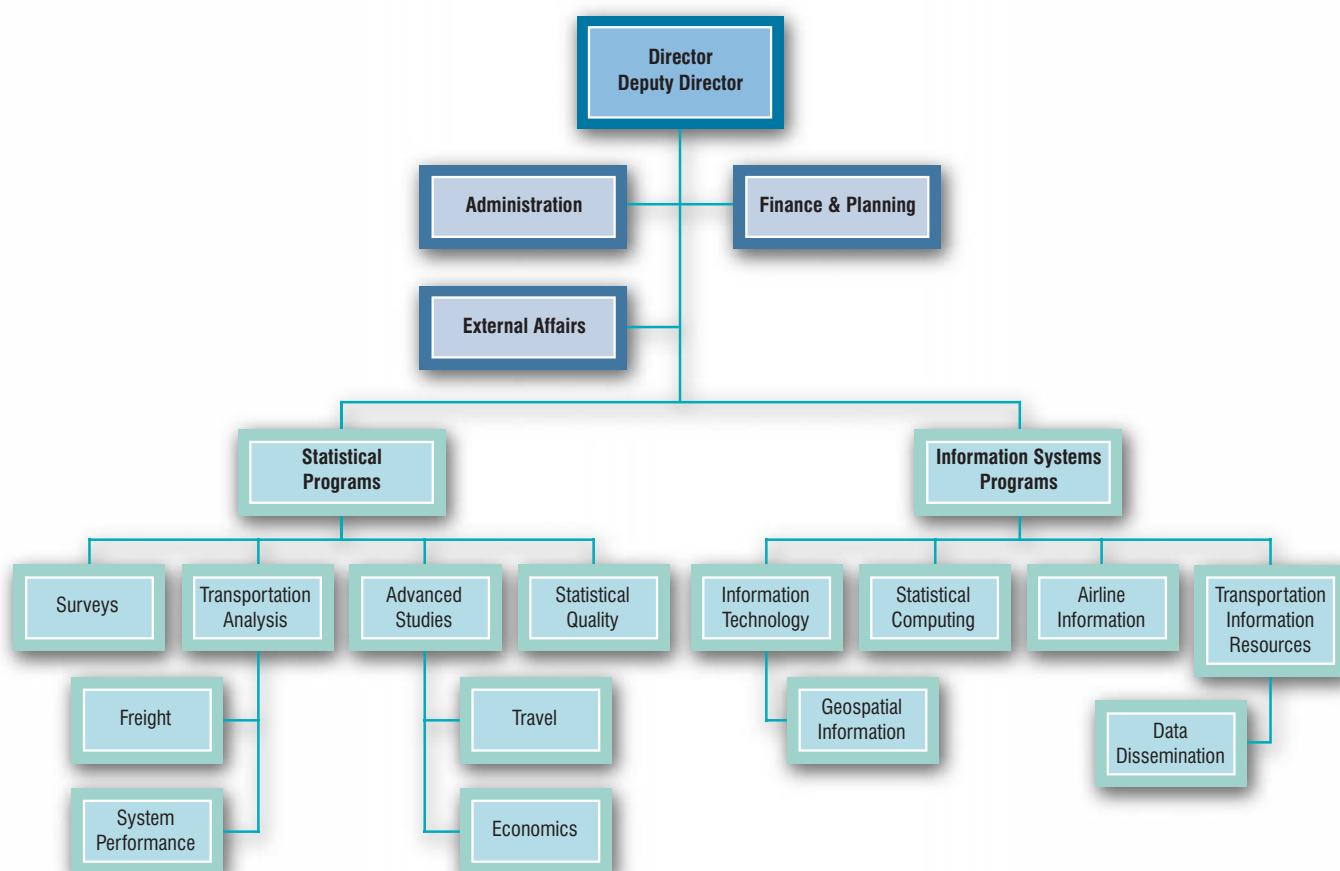
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Appendices



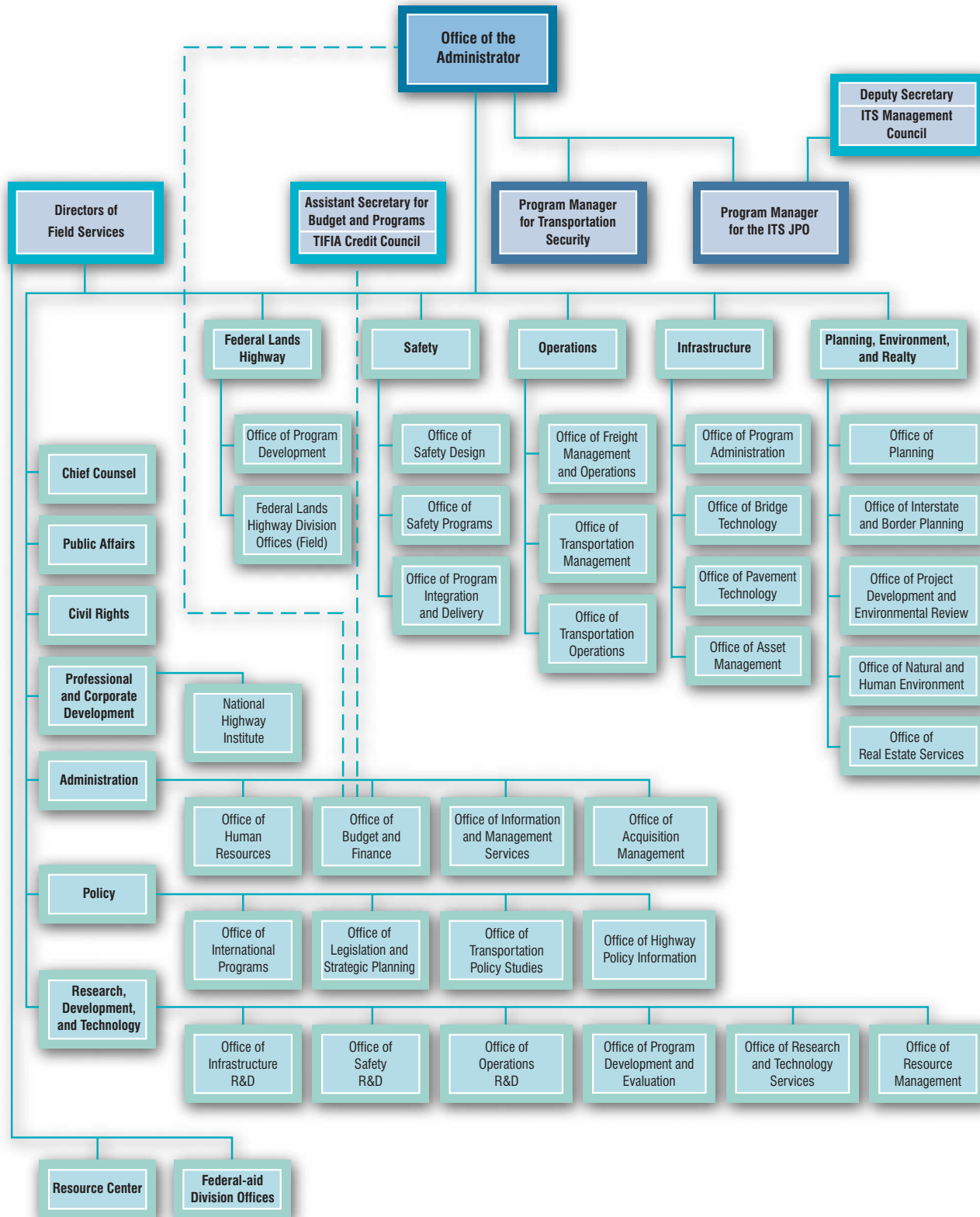


BUREAU OF TRANSPORTATION STATISTICS





FEDERAL HIGHWAY ADMINISTRATION

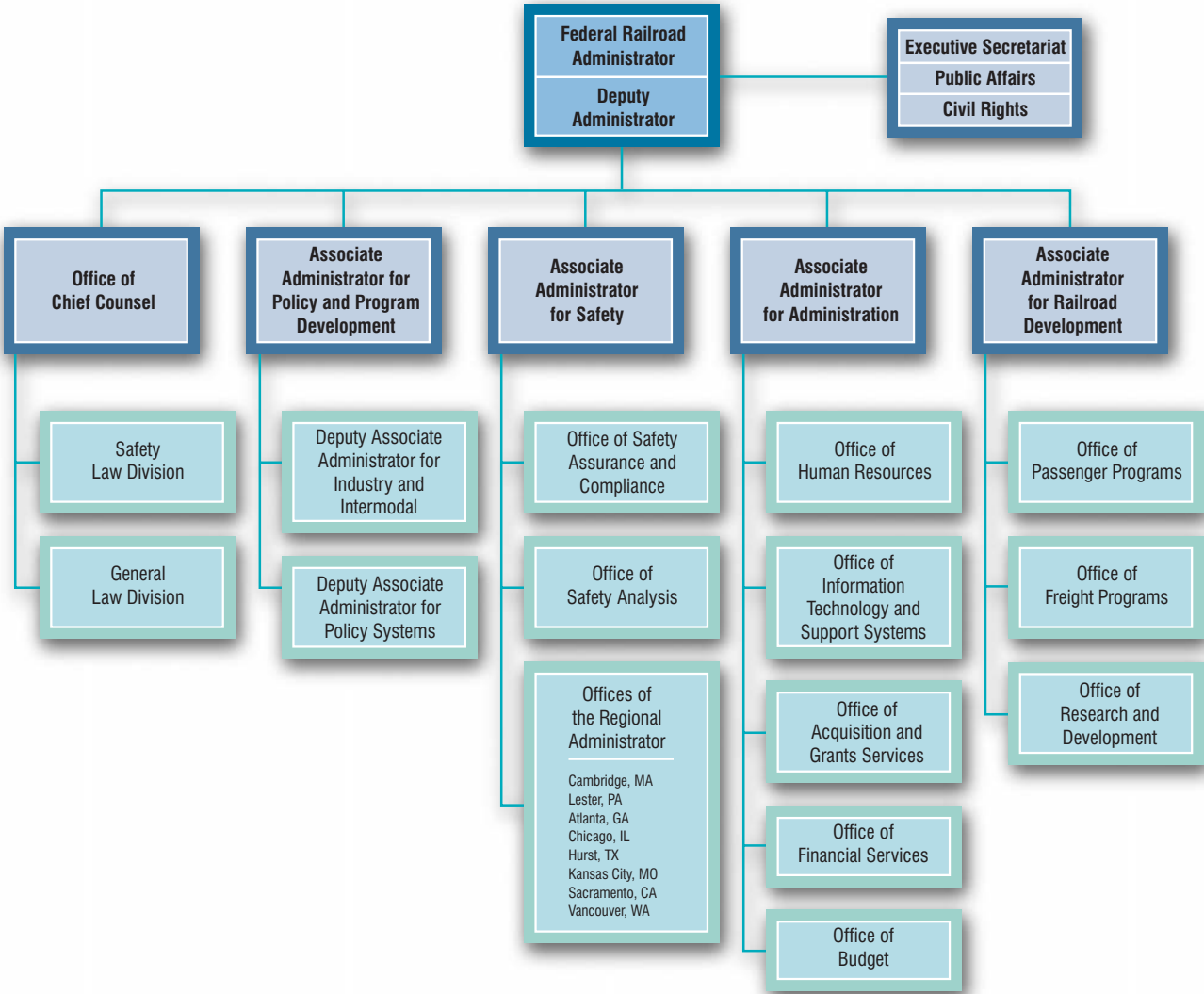


FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION



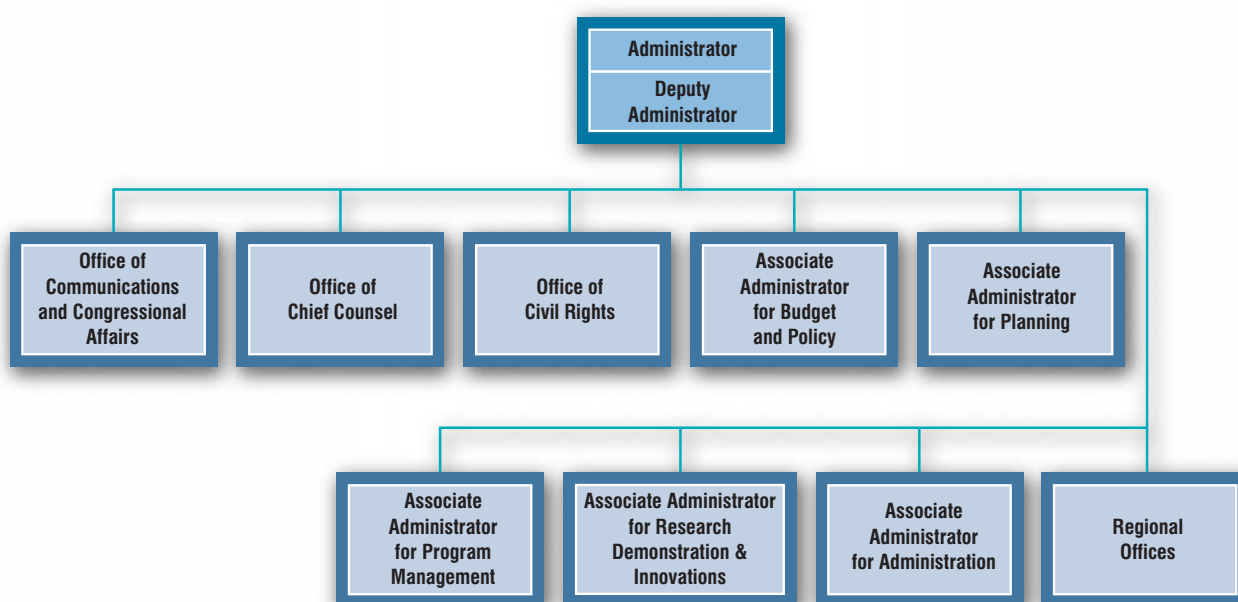


FEDERAL RAILROAD ADMINISTRATION



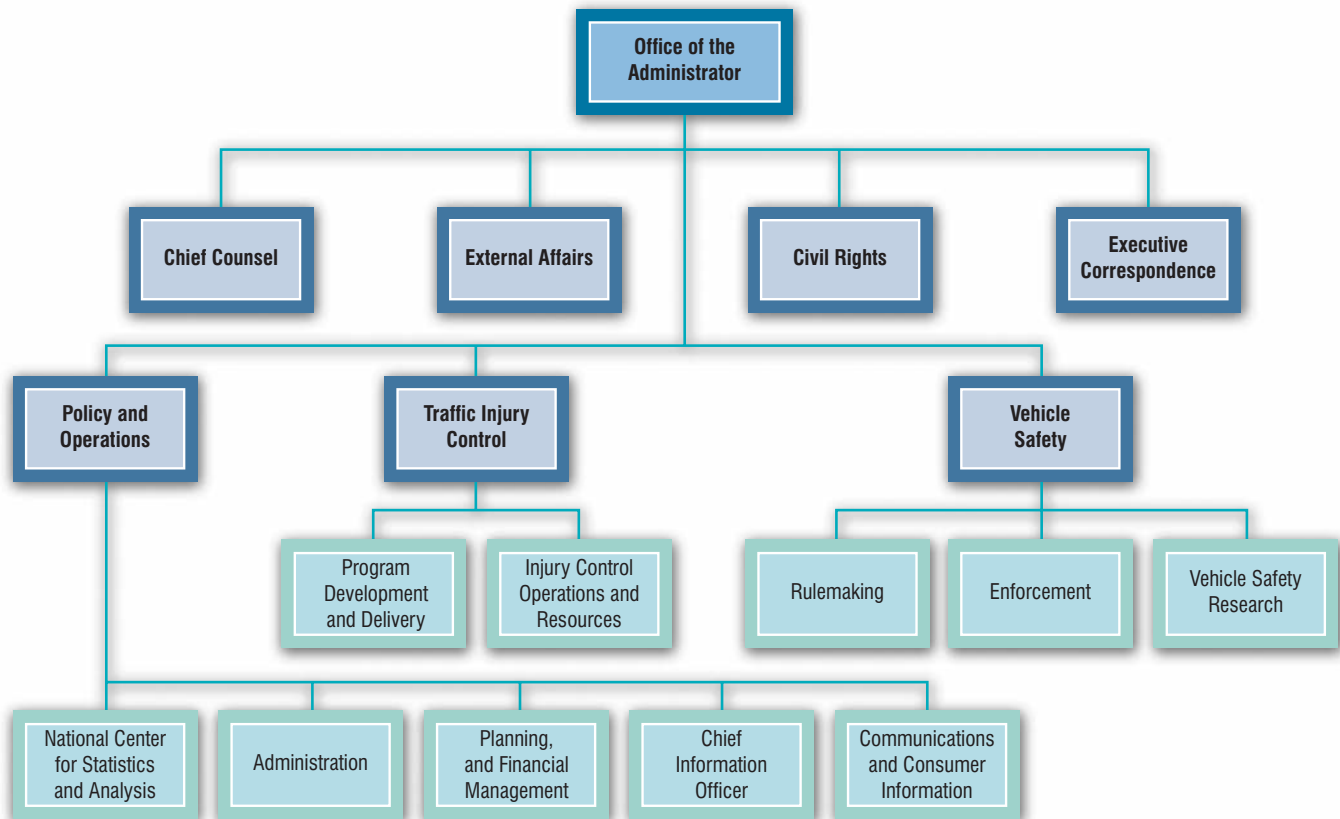


FEDERAL TRANSIT ADMINISTRATION





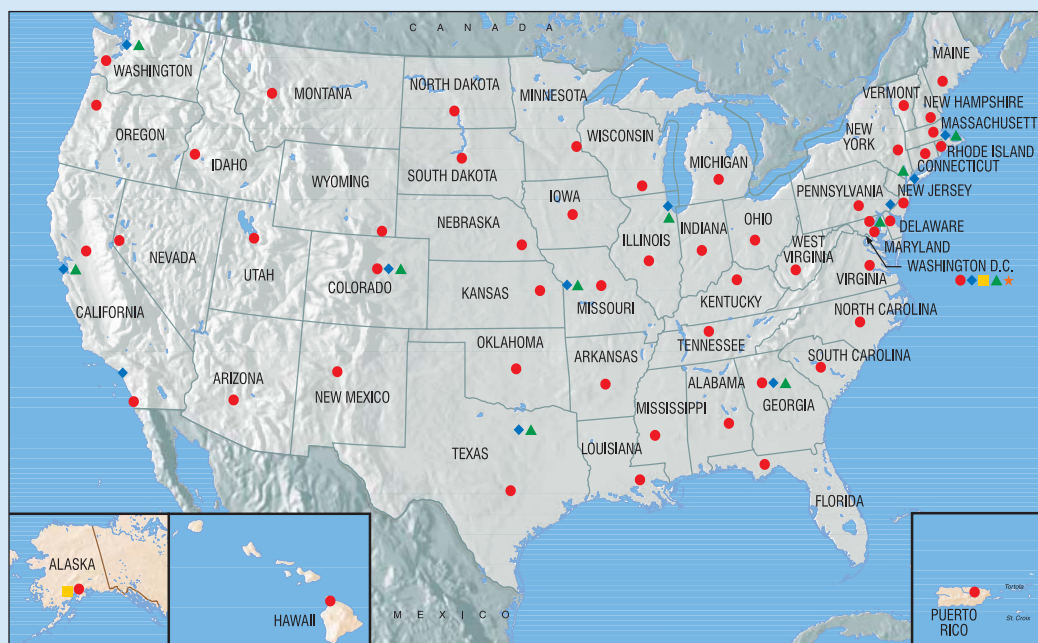
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION





APPENDIX B: FIELD LOCATIONS

FIELD LOCATIONS



● FHWA and FMCSA

Service Center

Glen Burnie, MD
Olympia Fields, IL
Atlanta, GA
Lakewood, CO

Division Office

Montgomery, AL
Anchorage, AK
Phoenix, AZ
Little Rock, AR
Sacramento, CA
San Diego, CA
Lakewood, CO
Glastonbury, CT
Dover, DE
Washington, DC
Tallahassee, FL
Atlanta, GA
Hawaii, HI
Boise, ID
Springfield, IL
Indianapolis, IN
Ames, IA
Topeka, KS
Frankfort, KY
Baton Rouge, LA
Augusta, ME
Baltimore, MD
Cambridge, MA

Lansing, MI
St. Paul, MN
Jackson, MS
Jefferson City, MO
Helena, MT
Lincoln, NE
Carson City, NV
Concord, NH
West Trenton, NJ
Albuquerque, NM
Albany, NY
Raleigh, NC
Bismarck, ND
Columbus, OH
Oklahoma City, OK
Salem, OR
Harrisburg, PA
Hato Rey, PR
East Providence, RI
Columbia, SC
Pierre, SD
Nashville, TN
Austin, TX
Salt Lake City, UT
Montpelier, VT
Richmond, VA
Olympia, WA
Charleston, WV
Madison, WI
Cheyenne, WY

■ BTS

Washington, DC
Anchorage, AK

◆ FTA

Regions

Boston, MA
New York City, NY
Philadelphia, PA
Atlanta, GA
Chicago, IL
Ft. Worth, TX
Kansas City, MO
Lakewood, CO
San Francisco, CA
Seattle, WA

Lower Manhattan Recovery Office

New York City, NY

Metropolitan Offices

Chicago, IL
Los Angeles, CA
New York City, NY
Philadelphia, PA
Washington, DC

▲ NHTSA

Regions

Boston, MA
White Plains, NY
Baltimore, MD
Atlanta, GA
Olympia Fields, IL
Ft. Worth, TX
Kansas City, MO
Lakewood, CO
San Francisco, CA
Seattle, WA
Washington, DC

★ FRA

Washington, DC only



GLOSSARY OF ACRONYMS

AAMVA	American Association of Motor Vehicle Administrators	CDK	Commercial Driver License
AASHTO	American Association of State Highway and Transportation Officials	CDM	Collaborative Decision Making
A&I	Analysis and Information	CDS	Construction-differential Subsidy
AC	Advisory Circular	CFO	Chief Financial Officer
ADA	Americans with Disabilities Act	CGA	Common Ground Alliance
ADHS	Appalachian Development Highway System	CHRIS	Corporate Human Resources Information System
ADS-B	Automated Dependent Surveillance Broadcast	CMC	Crisis Management Center
AIM	Activation Information Management	CMV	Commercial motor vehicle
API	American Petroleum Institute	COOP	Continuity of Operations
APTA	American Public Transportation Association	COTS	Commercial-off-the-shelf
ARC	Appalachian Regional Commission	CSI	Customer Satisfaction Index
ATPI	Air Travel Price Index	CUSEC	Central U.S. Earthquake Consortium
ATOS	Air Transportation Oversight System	CVISN	Commercial Vehicle Information Systems and Networks
AVP	Advanced Vehicle Technologies Program	CY	Calendar Year
BAC	Blood Alcohol Concentration	DAFIS	Departmental Accounting and Financial Information System
BRR	Bridge Replacement and Rehabilitation	DAMIS	Drug and Alcohol Management Information Statistics
BTS	Bureau of Transportation Statistics	DIY	Do It Yourself
C&A	Certification and Accreditation	DMS	Docket Management System
CAFE	Corporate Average Fuel Economy	DOD	Department of Defense
CAM-I	Consortium for Advanced Manufacturing-International	DOI	Department of Interior
CASTLE	Consolidated Automation System for Time and Labor Entry	DOT	Department of Transportation
CBT	Computer Based Training	DOTS	Datapoint On-Line Transaction System
CCF	Capital Construction Fund Program	DWI	Driving While Intoxicated



APPENDIX C: GLOSSARY OF ACRONYMS

ECHO	Electronic Clearing House Operation	GPS	Global Positioning System
EDS	Explosive Detection Systems	GSA	General Services Administration
EHRIS	Enterprise Human Resources Information System	GT	Grant Thornton
EPA	Environmental Protection Agency	GT	Gross Tons
ETD	Explosives Trace Detection	HA	Highway Account
FAA	Federal Aviation Administration	HM	Hazardous Materials
FACTS	Federal Agencies' Centralized Trial-Balance System	HAZMAT	Hazardous Materials
FAF	Freight Analysis Framework	HEPA	High Efficiency Particulate Arresting
FAH	Federal-Aid Highway Program	HMIS	Hazardous Materials Information System
FAIR	Federal Activities Inventory Reform	HMPE	Hazardous Materials Program Evaluation
FFGA	Full Funding Grant Agreements	HMR	Hazardous Materials Regulations
FFMIA	Federal Financial Management Improvement Act	HR	Human Resources
FHMRs	Federal Hazardous Materials Regulations	HTF	Highway Trust Fund
FHWA	Federal Highway Administration	IC	Interstate Construction
FLHP	Federal Lands Highway Program	IG	Inspector General
FMCSA	Federal Motor Carrier Safety Administration	IHMP	Intermodal Hazardous Materials Program
FMCSRs	Federal Motor Carrier Safety Regulations	IRI	International Roughness Index
FMFIA	Federal Managers Financial Integrity Act	ISTEA	Intermodal Surface Transportation Efficiency Act of 1991
FMS	Financial Statements Module	IT	Information Technology
FMVSS	Federal Motor Vehicle Safety Standard	ITOP	Information Technology Omnibus Procurement
FRA	Federal Railroad Administration	ITS	Intelligent Transportation Systems
FTA	Federal Transit Administration	IVHS	Intelligent Vehicle/Highway System
FY	Fiscal Year	IVI	Intelligent Vehicle Initiative
GAO	Government Accountability Office	JARC	Job Access and Research Commute
GPRA	Government Performance and Results Act	LAHSO	Land and Hold Short Operations
		LCV	Longer combination vehicles



APPENDIX C: GLOSSARY OF ACRONYMS

LDR	Labor Distribution Reporting	NSVI	Nighttime, Single Vehicle Injury
LFRD	Load and Resistance Factor Design	NTD	National Transit Database
LTV	light truck and vans	OA	Operating Administration
MCA	Managerial Cost Accounting	ODS	Operating Differential Subsidy
MEO	most efficient organization	OET	Office of Emergency Transportation
MSC	Military Sealift Command	OHMS	Office of Hazardous Materials Safety
MCSAP	Motor Carrier Safety Assistance Program	OIG	Office of Inspector General
MCSIA	Motor Carrier Safety Improvement Act	OLI	Operation Lifesaver, Inc.
MTA	Mass Transit Account	OMB	Office of Management and Budget
MTMC	Military Traffic Management Command	OPM	Office of Personnel Management
NAFTA	North America Free Trade Agreement	OST	Office of the Secretary of Transportation
NAPT	National Association of Pupil Transportation	PART	Program Assessment Rating Tool
NASS	National Accident Sampling System	PM-10	Particulate Matter
NBI	National Bridge Institute	PMA	President's Management Agenda
NCAP	New Car Assessment Program	PMO	Project Management Oversight
NDR	National Driver Register	PRISM	Performance Registration and Information Systems Management
NDRS	National Distress and Response System	QAR	Quality Assurance Review
NEC	Northeast Corridor	R&D	Research and Development
NEMA	National Emergency Management Association	RA	Reimbursable Agreement
NHS	National Highway System	RAIRS	Rail Accident Reporting System
NHTSA	National Highway Traffic Safety Administration	R,E&D	Research, Engineering and Development
NOCC	National Operations Control Center	ROS	Reduced Operating Status
NOPUS	National Occupant Protection Use Survey	RSPA	Research and Special Programs Administration
NPRG	National Partnership for Reinventing Government	SACP	Safety Assurance and Compliance Program
NSTC	National Science and Technology Council	SADD	Students Against Destructive Decisions



APPENDIX C: GLOSSARY OF ACRONYMS

SAFETEA	Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2004	TMA	Traffic Management Advisor
SBU	Strategic Business Units	TPR	Transit Planning and Research
SES	Strategic Evaluation States	TREAD	Transportation Recall Enhancement, Accountability, and Documentation
SMA	Surface Movement Advisor	TEServ	Travel Expense Service
SPAS	Safety Performance Analysis Systems	TSA	Transportation Security Administration
STB	Surface Transportation Board	TS	Transportation Safety Institute
STP	Surface Transportation Program	TTI (D)	Thoracic Trauma Index as Measured on an Anthropomorphic dummy
SUP	Suspected Unapproved Parts	TVMT	Truck vehicle miles traveled
SUV	sport utility vehicle	TVU	Transportation Virtual University
TASC	Transportation Administrative Service Center	URET	User Request Evaluation Tool
TEA-21	Transportation Equity Act for the 21st Century	UTC	University Transportation Centers
TEAM	Transportation Electronic Award and Management	U.S.	United States
TEU	Twenty-foot Equivalent Units	USDA	United States Department of Agriculture
TIFIA	Transportation Infrastructure Finance and Innovation Act	VANTIS	Value Added Niche Information Technology Services
TIM	Traffic Incident Management	VCA	Voluntary Compliance Agreement
TIP	Threat Image Projection	VMT	Vehicle-Miles-Traveled

For more information, please contact:

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Federal Highway Administration

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